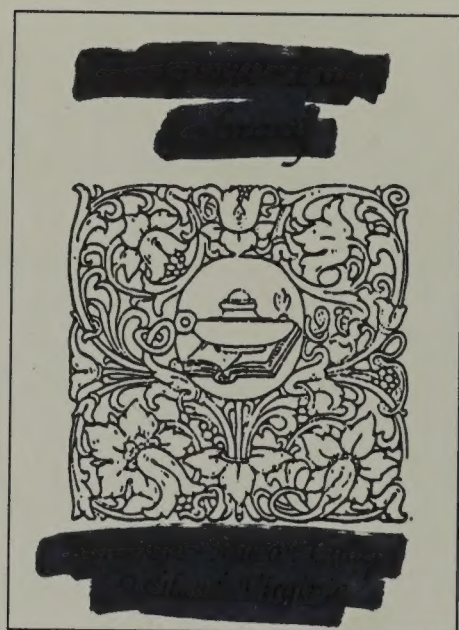


U.S. Interests in Southeast Asia



U.S. INTERESTS IN SOUTHEAST ASIA

HEARINGS
BEFORE THE
SUBCOMMITTEES ON
INTERNATIONAL ECONOMIC POLICY AND TRADE
AND
ASIA AND THE PACIFIC
OF THE
COMMITTEE ON
INTERNATIONAL RELATIONS
HOUSE OF REPRESENTATIVES
ONE HUNDRED FOURTH CONGRESS
SECOND SESSION

MAY 30 AND JUNE 19, 1996

Printed for the use of the Committee on International Relations



U.S. GOVERNMENT PRINTING OFFICE

36-526 CC

WASHINGTON : 1997

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-054018-6

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THURSDAY, MAY 26, 1988

HOUSE OF REPRESENTATIVES
COMMITTEE ON INTERNATIONAL RELATIONS
SUBCOMMITTEE ON ASIA AND THE PACIFIC
WASHINGTON, DC

The subcommittee met, pursuant to notice, on Thursday, May 26, 1988, at 10:00 a.m. in Room 2200, Rayburn House Office Building, Washington, DC. Hon. Doug Bereuter (Chairman of the subcommittee) presiding.

Mr. BERTHIAUX. The subcommittee will come to order.

The Subcommittee on Asia and the Pacific has focused its attention in the last 18 months on Northeast Asia, especially China and Korea and to some extent Japan. While circumstances have made such a northern focus appropriate and necessary, I am pleased today that our hearing will begin to shed some light on our relationship with the Association of Southeast Asian Nations, ASEAN and Indonesia. We will round up this security-oriented hearing with a regional economic/developmental hearing, probably next month.

Southeast Asia's remarkable economic growth rate of nearly 8 percent per year would have been impossible without a stable security environment. Virtually everyone in the region acknowledges that U.S. forces have played an indispensable part in maintaining that benign security environment, and some of our former adversaries, reportedly even Vietnam, now endorse continuation of our military presence.

Today's hearing will focus on America's military role in Southeast Asia and related attitudes toward security cooperation with the United States. We will also take the Chinese regional military capabilities and intentions, at least in a small way—and we will follow that up later, I am able to tell you, with a joint hearing with the National Security Committee on the People's Liberation Army after the 4th of July recess.

We are going to look at the utility of national multilateral security dialogues in the region and what some observers consider a far greater arms race.

Finally, I have been struck by the increasing assertiveness of our Southeast Asian friends and allies in security issues. The assertion was demonstrated when Thailand denied our request to preposition military equipment on ships off the Thai coast and, again, late last year, when ASEAN signed a regional nuclear treaty, the first such treaty which contained provisions which they knew we opposed.

PART 1—SOUTHEAST ASIA SECURITY: DRAGONS, DOMINOES, AND DYNAMOS

THURSDAY, MAY 30, 1996

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COMMITTEE ON INTERNATIONAL RELATIONS,
SUBCOMMITTEE ON ASIA AND THE PACIFIC,
Washington, DC

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I will be interested in the assessment of today's witnesses whether this evolution results from concerns about U.S. staying power and political will or a greater wariness of Chinese intentions.

Since Subic Naval Base and Clark Air Base in the Philippines were closed in 1992, the United States has had no military base in Southeast Asia. We maintain our regional presence through access arrangements with allies and friends which help service the Seventh Fleet. Singapore has been particularly helpful; although, Malaysia, Thailand, the Philippines, Indonesia, and others are also cooperating.

This post-Subic policy was aptly described by a former Pacific commander-in-chief as "places, not bases". We also maintain crucial contacts with friendly militaries in the region through combined exercises, arms sales, and the International Military Education and Training program, or IMET.

I believe it is clear and needs to be emphasized that this close military cooperation is not directed against any outside power threatening the region but rather is designed to prevent the creation of a destabilizing power vacuum.

The major flash point in the region would seem to be the South China Sea territorial dispute over the Spratly Islands. Do these small islands and atolls have any real strategic importance? Of course, there has long been speculation about petroleum resources in the area. There are six claimants: China, Taiwan, Vietnam, Malaysia, the Philippines, and Brunei. The major clashes have been between China and Vietnam. But in February 1995, China occupied Mischief Reef, an island claimed by the Philippines, which increased tension between China and ASEAN. Recently tensions have subsided, but no long-term solution seems to be in sight. China has resisted multilateral negotiations, but there have been efforts to defuse tension through the ASEAN Regional Forum, or ARF, as a series of Indonesia-sponsored workshops have approached that issue.

I am very pleased to have two first-rate panels to share with us their views on these important issues and others.

Our first panelist is Ambassador Winston Lord, Assistant Secretary of State for East Asia and Pacific Affairs.

Assistant Secretary Lord is certainly no stranger to this subcommittee. He has been here more than anyone else, and we welcome him back again.

He is joined by Deputy Assistant Secretary of Defense, Kurt Campbell, who is an Asian Specialist in the Office of Secretary of Defense.

I also look forward to the testimony of our second panel. First, we will hear from retired General Michael Carns, former Vice Chief of Staff, U.S. Air Force. General Carns' distinguished 35-year military career includes four operational tours in the Pacific including as a fighter pilot in Vietnam. General Carns was also commander of the 13th Air Force, formally headquartered at Clark Air Base in the Philippines and now in Guam, and Vice Commander and Chief, U.S. Pacific Command.

Our second witness, Dr. Don Emmerson is a professor of political science in Southeast Asian Studies at the University of Wisconsin, Madison. He brings extensive regional experience to the panel.

Dr. Emmerson will be followed by James Clad, currently research professor of Southeast Asia Studies at Georgetown University. He spent many years in the region as a journalist.

Our final witness will be Ralph Cossa, executive director of the Pacific Forum in Honolulu. Mr. Cossa is also a member of the steering committee of the Multinational Council for Security Cooperation in Asia, a non-government organization focusing on regional confidence-building measures and multilateral security cooperation.

I would like now, before we hear from our witnesses, to turn to my distinguished colleague from California, the ranking member, Mr. Berman.

Mr. BERMAN. Well, thank you very much, Mr. Chairman.

I think this is a useful opportunity, through us, to the American people, to give a statement of why what is going on in Southeast Asia has security impacts on us?

Why are we so closely allied with the nations in the region?

What are the benefits that those countries derive from their security ties with us?

What are the benefits that we derive?

I think the American people, especially with the normalizations in Vietnam and—I do not know if it is appropriate to say things are settling down in Cambodia any more. But I think there is probably less attention paid by the American people to this part of the world than has been paid in a long, long time.

I am also curious and would be interested in hearing your thoughts about the whole question of arms exports to this region. As the chairman mentioned, these countries are growing at, really, a phenomenal rate of growth. Apparently the dollar volume of arms exports to East Asia now is about \$40 billion annually. What are the implications for peace and stability of an apparent regional arms race in which the United States is the principal supplier while also being the major regional power?

And we know that many of these countries only a short time ago were in open dispute with their neighbors, as, again, some of these tensions continue to simmer as we see almost daily in the South China Sea. Some have proposed creating a CSCE-type of organization in Asia, expanding upon the security dialog and the membership in the ASEAN Regional Forum in order to resolve these tensions.

Should we be pushing for this kind of broader dialog? If not, why not?

And these are some of the questions I hope that might get addressed today.

So thank you very much, Mr. Chairman, for holding the hearing. As you said, we spend a great deal of time in Northern Asia. And I think this is a good time to try and rectify that imbalance and focus on what is happening in Southeast Asia.

Mr. BEREUTER. Thank you very much, Mr. Berman, for those suggested areas of coverage and questions.

We have two colleagues who have joined us. Does either member have a statement, oral or written, to submit?

Mr. Kim.

Mr. KIM. Thank you, Mr. Chairman. I just have a brief opening statement, Mr. Chairman.

I apologize for having to come and go. I have another subcommittee markup today at Aviation.

I would like to welcome any comments from Ambassador Lord regarding the letter I faxed to him yesterday. This kind of bothers me. I was surprised to read in yesterday's Washington Post that our colleague from New Mexico traveled to North Korea as an official emissary of the White House. I am very disappointed because I have been deliberately misled.

Secretary Christopher and Mr. Lord, yourself, personally assured this committee and that you too, are outraged by the North Koreans' apparent discriminatory policy of picking and choosing Members of Congress. And I was told a strong protest would be made. Obviously it has not. I do not want to get us sidetracked on this issue, but I was very, very disappointed when I read the newspaper article and hope somehow that this can be resolved. We do not want to see this problem pertain to this committee and Administration.

Again, I would like to welcome this panel to the hearing. Just last month, I visited Singapore, Malaysia, and the Philippines. It was a very impressive trip that I made. And we do not focus enough attention to ASEAN, and the rest of Asia for that matter.

And I think it is an important hearing today, Mr. Chairman. I appreciate your leadership.

I would ask to revise and extend my comments.

[The prepared statement of Mr. Kim appears in the appendix.]

Mr. BEREUTER. Without objection.

I was unaware that Mr. Kim would bring that up as an initial point. But, for the record, I would indicate that I have discouraged any members of the subcommittee and the committee from traveling to North Korea in an official or unofficial capacity as long as the North Koreans, very obviously, seem to be discriminating against the visit of Mr. Kim, a Korean-American only because he is a Korean-American.

And I have tried to discourage other Members of the entire House from traveling until this unacceptable arrangement is changed.

And I do think we need to express and act in solidarity on this issue.

Mr. KIM. Thank you, Mr. Chairman.

Mr. BEREUTER. Mr. Royce.

Mr. ROYCE. Thank you, Mr. Chairman. I would like to thank you for conducting this timely hearing, and I join you in welcoming today's witnesses.

Mr. Chairman, as a Representative from California, I am keenly aware of the potential economic impact of a disruption of trade with the People's Republic of China. Unfortunately, as economically painful as it may be, the national security of the United States must come first.

Over the past 3 years, Beijing has engaged in an active campaign to undermine U.S. influence in Asia, to supply weapons of mass destruction to rogue states, to intimidate fledgling democracies in Asia with missile diplomacy, to extend their nuclear missile range

by attempting to purchase SS-18 nuclear missile technology from Russia, and most recently undermining internal U.S. security by selling high-powered machine guns to criminal elements within the United States.

If you combine these direct threats to U.S. national security with the PRC's continued piracy of U.S. intellectual property and their atrocious record on human rights, it must be increasingly difficult for the rest of the world's leaders to ascertain at what level of international irresponsibility and recklessness a nation has to sink before this Administration takes a stand.

In reading the accounts of the recent attempt by Norine Co., the same company that produces arms for the Chinese military, to introduce 2,000 fully automatic AK-47 machine guns to U.S. streets, I could not help but wonder why Beijing would be willing to jeopardize Most Favored Nation trading status by allowing such a deal so close to the congressional vote on the issue.

Could they really be so confident in the reluctance of this Administration and this Congress to respond forcefully that they are willing to gamble? Either that or perceiving MFN is not a high priority for China.

Mr. Chairman, 2 weeks ago, the President decided not to issue sanctions against the PRC related to the sale of nuclear ring magnets to Pakistan because, according to Secretary of State Warren Christopher, top Chinese officials probably did not know of the transfer.

Of course, this is the same PRC Government that we expect to enforce intellectual property agreements. They cannot keep track of nuclear ring magnets but are efficient enough to track down pirated copies of Madonna's latest CD?

Mr. Chairman, you will have to forgive me for sounding a little dubious. I am sure we will hear some of the same discussions in the next few weeks from Secretary Christopher regarding the sale of military weapons to America's criminals: They are not responsible, they did not know.

Well, recent news reports quote a senior State Department official as saying: "It is hard to know if it is worse. They are trying to buy nuclear weapon technology"—which I might add can better reach the heart of the United States—"or sell guns on American streets."

Mr. Chairman, when these guns begin to make their way onto the streets of Los Angeles and throughout California, I think we will find that both have potentially deadly effects.

Thank you, Mr. Chairman.

Mr. BEREUTER. Thank you, Mr. Royce.

As you can see, we have comments here about North Korea and China; and you can respond to those in the course of your comments if you wish, either of you gentlemen.

But I would like to keep—and I would remind the members as well—we do need to focus this hearing primarily on Southeast Asia security issues. When things happen, it is inevitable that they are brought up, I understand, by members. That is their right. And I am sympathetic with the concerns that are brought up, as you could see.

But, Mr. Secretary and Mr. Secretary, we look forward to your oral comments. Your entire statements will be made a part of the record. You may summarize as you see fit.

First, the gentleman from California, Mr. Rohrabacher.

Mr. ROHRABACHER. Thank you. And I will be very, very short.

I am concerned about Southeast Asia. I agree with the chairman, we should focus on Southeast Asia, although, what is going on in China certainly has a major impact on what is happening in Southeast Asia, specifically in regard to the point I am about to make.

It seems to me that the United States is not being the champion of the democracy that we traditionally have been. During the 1980's, the United States was unabashedly the champion of democracy. And I believe because of that, the world moved closer to peace. We saw a democracy movement spring up in China. We saw a democracy emerge in Korea. We saw a democracy emerge in the Philippines. We saw a further evolution in Indonesia toward a more democratic, more open society there, although, they still have some problems. And we saw even in Thailand that it turned around and started heading back toward a more democratic society.

I am afraid that in the last few years that ever since—especially since this Administration reversed itself on the human rights necessity for Most Favored Nation in China, that we have seen an evolution going exactly the wrong way in Southeast Asia. I mean, what do we see now but people—I do not think it is any coincidence that this Administration has poo-pooed the importance of human rights in China, as my friend Mr. Royce was talking about. And then we see this brutal regime in Burma basically running roughshod over the democratic movement and thumbing its nose at the people of the world.

And we see that democracy and peace are actually two constants that go together. And I fear for the peace of this region because I believe that we have seen backsliding in Southeast Asia on the issues of democracy and human rights that we used to have as the center of America's foreign policy.

So with that said, I appreciate your leadership, Mr. Chairman; and I look forward to working with you and keeping a close eye on this region.

Mr. BEREUTER. Thank you very much, Mr. Rohrabacher.

As I was saying, your entire statements will be made a part of the record. I am concerned about the deterioration of democracy in Cambodia. If either of you gentlemen would like to address that issue, I would appreciate it.

And, Dr. Campbell, your thoughts about the turn down we received on Thailand with respect to pre-positioning. Is it hedging the bet? Does it hurt our long-term staying power?

If you wish to address that one, it would be appreciated.

Ambassador Lord, you may proceed as you wish.

STATEMENT OF HON. WINSTON LORD, ASSISTANT SECRETARY OF STATE FOR EAST ASIAN AND PACIFIC AFFAIRS, U.S. DEPARTMENT OF STATE

Mr. LORD. Mr. Chairman, we have already seen how Northeast Asia, with its major problems, gets brought up even as we try to address Southeast Asia. There have been a lot of issues already put

on the table that I guess I cannot do justice to right now in the interest of time. I will be glad to pursue these individually with the members who have raised them in greater depth.

Before giving an excerpted version of my opening remarks, let me just pick up a few of the themes that have been raised.

First of all, Congressman Kim, out of courtesy to him—I know he has to leave—I have received your letter; and, of course, the Secretary has received it. Let me make a few brief comments. We can discuss this further, if you would like, bilaterally.

First of all, the news article that prompted your letter was certainly misleading. Congressman Richardson was not an emissary, official or unofficial, from the White House. He did meet with White House and State officials before going to get briefed, but he was not an emissary. He went in his own capacity.

Second, we have continually—and will continue to do this—raised with the North Koreans the unacceptability, as we have said in previous correspondence and hearings, of their picking and choosing among Congresspeople. We find this very disturbing and, as I say, unfortunate. We will continue to do this as a general principle. And we have done it on many occasions, as I have told you, in your specific case, where they have discriminated against you. And I pledge to you that we will continue to do that.

The dilemma we faced when Congressman Richardson was invited to go to North Korea was, do we go to a Member of Congress and say we strongly urge you not to go at all when he wished to go and when North Korea wished him to come? We are reluctant to tell Members of Congress not to travel. That has to be sorted out, it seems to us, among the Members of Congress about your own policy on this.

And, therefore, we did brief him, to try to influence the North Koreans to talk to the South and generally to pursue American goals. But he was not an envoy of the White House or the Administration. And we did not feel it was appropriate for us to veto his trip, distasteful as we find the North Korean policy of picking and choosing. We will continue to tell the North Koreans it is not in their own self-interest to alienate Members of Congress by this policy. We will continue to raise your specific case.

But, very candidly, we did not feel we were in a position to tell Mr. Richardson he should not go to North Korea.

Other issues have been raised, and I cannot do justice and still keep our focus on Southeast Asia.

Obviously, on China, we have some disagreements. I will be testifying next week. It is on the Senate side, actually. But I am always happy to talk bilaterally.

I would say that an Administration that is willing to move carrier forces around, is willing to impose sanctions, and has been the most outspoken on human rights with respect to China, compared to any other country, cannot be considered as one of rolling over for the Chinese.

But there are many issues that you have raised, and I would be glad, in the question and answer period, perhaps, to get further into this. But given the focus of this hearing, I cannot do justice to your legitimate questions. I would be glad to continue a dialog on this.

Finally, I just respectfully disagree with my good friend, Mr. Rohrabacher. I have served several administrations, Republican and Democrat, going all the way back longer than I hate to admit. I do not know of any Administration—with the possible exception of the Carter administration, which I did not serve in actually, the one I did miss since President Kennedy—that has promoted democracy as forcefully as this one. It may not be as forceful as you would like. We make no bones about the fact that we have to balance off our human rights objectives and our security and economic objectives. And these sometimes require some tough decisions. But we are forcefully promoting democracy.

I could not agree more that open societies and security go hand in hand. And when you talk about promoting security, if you have open societies, they are not going to attack each other. They are not going to drive groups into armed opposition. They are not going to promote refugees and terrorism.

So we believe there is a very strong link. And I agree with your general principle. I do not agree with your characterization of American policy. And I would not be so pessimistic about the trends in Asia.

I think history is on the side of freedom in Asia. We have seen it in Mongolia, for example, Cambodia—which I will get back to—but they have come a long way from the “Killing Fields”. And I think we have seen it in the election in Taiwan.

We have seen other progress in Southeast Asia and Korea as you have mentioned. And I believe we have even seen it in areas like Vietnam and China, that if they want to develop their economies, they are going to have to have open political systems and the rule of law and the free flow of information in their own self-interest, leaving aside universal aspirations.

But, again, I cannot do justice to any of these things right now; but I am glad, either bilaterally or later in the question and answer portion, to go into greater depth.

Mr. Chairman, I do ask my full opening remarks be included in the record, as you said you would.

Mr. BEREUTER. Without objection.

[The prepared statement of Mr. Lord appears in the appendix.]

Mr. LORD. And I will try to condense, paraphrase, and make as brief as possible my opening remarks so we can get to a dialog.

But I do want to congratulate you once again for holding another in a series of thoughtful hearings designed to explore key issues.

And I agree with what you and Mr. Berman and others have suggested, that it is important to focus the American people and their representatives to this dynamic region and/or basically hopeful region of Southeast Asia when, inevitably, Northeast Asia often gets much of the headlines and much of the attention.

So I commend you on that.

But, indeed, one reason we have not had too many hearings on Southeast Asia recently, compared to the 1960's and 1970's, when we had all too many, is because there have been hopeful developments in that region.

Back in the 1960's and 1970's, few could imagine, let alone focus, on the great promise and potential of the region, that it could achieve in just a few decades.

The fact we have not had frequent sessions on Southeast Asia during the 1990's is not a sign so much of neglect but a tribute to the profound, positive changes that have occurred in the region.

Indeed, I can think of no other part of the world that has come so far so fast not just in terms of security, but in terms of economic and political development. Where in the past we saw tension and conflict, we now see cooperation and a real sense of community.

Without returning to the debate over the Vietnam War, I think we can find some solace amidst the obvious pain and our involvement in that war by recalling the shield we provided for the nations of Southeast Asia, giving them time to develop their economies and their security even as we were engaged in the Vietnam Conflict.

And this very theme was struck by the Foreign Minister of Singapore, Foreign Minister Jayakumar in a lecture he delivered at Georgetown University on this very topic. And he argued that American sacrifices in Indochina bought valuable time for the non-communist countries in Southeast Asia to put their economic houses in order, to provide breathing space, which laid the foundation for the rapid economic growth we can see there today.

But more significant for this hearing and for our policies, he then went on to stress that America's military presentation and engagement in the region is essential for Southeast Asia's continued stability and prosperity. And that will be a major theme in my and Dr. Campbell's remarks.

For example, he said: "The United States remains an indispensable factor of any new configuration for peace, security, and economic growth in the Asia Pacific. Only the United States has the strategic weight, economic strength, and political clout to hold the ring in the Asia Pacific."

I have here a copy of his speech, and I would like it to be added in the record because it is directly relevant to our conversations today and I think very helpful. It represents the fact that we are welcomed in that region by most of the countries. And it is an eloquent statement of why we need to be engaged in our own self-interest as well as the interests of the region.

Mr. BEREUTER. The Minister's statement will be added to the record.

Thank you.

[The speech of Mr. Jayakumar appears in the appendix.]

Mr. LORD. Now, the countries of ASEAN itself have been at the heart of the remarkable progress of the last several decades. And I go on in my statement to point out the development of this organization, somewhat analogous to the European Community, in the sense that, as you noted in your remarks, there have been disputes among many of these countries. And these tensions have been greatly dampened and, indeed, removed by the development of ASEAN even as the European Community tended to dampen the tensions between France and Germany and so on.

It has also paved the way for visionary initiatives such as APEC and the Free Trade Association and ASEAN. It has helped to promote ASEAN's dynamic economic progress.

Vietnam is now in a full circle with respect to ASEAN. It has been welcomed as a member since 1995. Both Cambodia and Laos

are scheduled to join, and Burma could become a member by the turn of the century. And we will talk about Burma and Cambodia later.

I point out that, as part of our policy toward Southeast Asia, that we have aggressively increased our engagement with Vietnam, with the highest priority being the fullest possible accounting for our MIAs. And I believe the progress and relations with Vietnam, including our diplomatic relations since July 11, 1995, has both reflected and encouraged the cooperation of the Vietnamese on this highest priority issue. But, again, relevant to today's discussion, it has promoted our regional security and economic interests.

Security is essential to the creation of a peaceful and prosperous Southeast Asian region. As you yourself pointed out, that security and stability in that region has allowed these nations to develop so dynamically.

And in my statement, I point out the special relationships we have with two of the ASEAN countries, treaty allies in the Philippines and Thailand.

But very significant—and, again, I believe the chairman mentioned—is that to compensate for the loss of our Philippine bases, the other ASEAN nations in recent years have stepped up their cooperation with us, underlining, again, their desire for our presence in the region and that we stay engaged.

And, again, in my statement, I point out how Singapore, Indonesia, Malaysia, and Brunei, in various ways—through joint operations, exercises, ship repair, aircraft maintenance, et cetera—have helped facilitate our presence in the region.

I will also spend some time on the Asian Regional Forum later in my remarks; but that is another important part of our security approach to the region.

We believe that a strong U.S. security presence is essential for the continued stability and prosperity of the region. We now have, as you know, in the Asia Pacific region roughly as many forces as we have in Europe. A dramatic transformation. And this underscores our commitment to the region. This presence is warmly and widely welcomed by the nations of the area as serving stability and signalling U.S. engagement.

I then spend some time on the interrelationship between security and economic dynamism, and I point out—and I am glad to hear you will be having hearings on that as well—the tremendous market that ASEAN represents and its importance to us. And it, again, underlines the independence between security and prosperity and also our stake in the region, why it is in our self-interest to maintain our engagement.

Mr. Chairman, I then spend a few paragraphs each on the situations in Burma and Cambodia. We have spoken out very strongly in recent days, both at the State Department and the White House, about the detentions of Aung San Suu Kyi supporters as she convened a major rally in recent days.

And, fortunately, she was able to hold her party in Congress. And, indeed, she attracted 10,000 supporters, the largest crowd in recent years, listening to this outstanding champion of peace, representing the elected representatives of Burma.

The SLORC continues to detain more than 250 of her supporters, and there are unconfirmed reports that it may bring charges against some of those detained. We have forcefully deplored those detentions and call on the SLORC immediately and unconditionally to release all of those who have been detained. We have made the strongest possible representations to the Burmese authorities in Rangoon and in Washington.

Now, our objective here is to try to inhibit the SLORC from increasing its oppression, including a resort to violence, and to promote a movement toward a direct dialog between the SLORC and the NLD aimed at national political reconciliation and democratization.

We are consulting closely with other interested nations on what steps we can take to press the regime to release the detainees and enter into a dialog. We will continue to make clear to the military regime that it will not gain international legitimacy until it starts talking to the legitimate representatives of the Burmese people.

I then spend some time on the Cambodian situation. And here we are concerned, as you are, Mr. Chairman, about some recent developments, whether it is corruption, whether it is intimidation of parliamentarians or leaders or journalists, including the brutal murder of a journalist recently.

Again, we do not know the perpetrator of that crime. We are seeking that very vigorously and protesting what has happened. So there are some disturbing trends, including tensions in the coalition.

We are making clear, as a friend of Cambodia, our genuine concerns about these developments and how they could undermine international and U.S. support for what is going on there.

But I think it is also important, Mr. Chairman, that we not lose sight of just the tremendous challenges that Cambodia faces on so many fronts and how far it has come from the "Killing Fields".

And so whether it is the U.N.-supervised elections or the return of 400,000 refugees or the reduction of the Khmer Rouge threat or some progress on economic and military reform, I think we have to recognize just what a monumental challenge they face and how far they have come.

So we will combine candid concern about these developments but also keep in mind some sense of perspective of the arduous challenges that they face.

I then discuss regional security dialogs. And the Asian Regional Forum has been in existence now for only a couple of years. I describe its membership and some of its purposes.

U.S. engagements in regional security dialogs. And there are others besides the Asian Regional Forum. But that is, right now, the most comprehensive region-wide, government-official-type forum. We have encouraged, in this Administration, these dialogs, including the ASEAN Regional Forum.

Previously, the United States had been cautious about regional security dialogs because it feared our engagement in them would be construed as a mask for our withdrawal from a leadership role in regional security.

This Administration decided from my very first confirmation hearings that we would shift that policy and that active U.S. sup-

port for such regional dialogs could enhance, not weaken, our security leadership as long as it was coupled with a renewed commitment to our forward military presence and the strengthening of our bilateral alliances, which I have, again, reconfirmed today.

We see the ARF as something that complements, not supplants, our bilateral relationships in Southeast Asia. We will maintain these bilateral alliances while monitoring what we hope will be the continued strengthening of the ARF and other regional security dialog processes.

We will neither lose sight of our ARF's security dialog potential, nor will we prematurely inflate its progress.

Again, I have some more details on what the ARF is trying to do. But, basically, where we are headed now—and it has only been in existence for a couple of years—is first to strengthen and make more candid the dialog among the ministers and senior officials. I recently attended a meeting in Indonesia so that these controversial topics can be explored in greater depth.

I think it is of some significance, however, that in only 2 years of its existence that this incredibly diverse membership of 19 countries, all kinds of potential and historic antagonists are, indeed, engaging in some of the most sensitive topics in the region, whether it is the South China Sea, the Taiwan Straits, non-proliferation in Cambodia and Burma, and so on.

Now we still have a long ways to go to move and sort of set peace at exchanges to genuine dialog and give and take, let alone conflict resolution. But I think it is significant that this organization is already grappling with that.

So one of our objectives will be to try to strengthen those exchanges. The other is to continue to enhance the work that is well underway on confidence building measures that take place in specific meetings in the course of a year in between the ministerial sessions.

My statement, again, details the various ones we are pursuing, whether it is a general one on confidence building, which gets into the exchange of defense white papers, or military observers or conventional arms registry at the United Nations, or whether it is one on peacekeeping or whether it is one we co-hosted with Singapore on search and rescue.

What these concrete programs do is to get military and civilian officials from these various countries, many of them who have fought each other in the past and are worried about their future relations, working together and beginning to build confidence.

Over time, the ARF sets, as an objective, to try to move from this stage to preventive diplomacy and even—and this will take much longer—actual conflict resolution.

And I think the potential for this forum was already demonstrated last summer—and, again, I lay it out in my statement—with respect to the South China Sea.

You will recall that the Chinese are establishing some construction on Mischief Reef, which is a disputed territory with the Philippines; and there was a lot of tension last spring in the South China Sea.

Several things then happened. ASEAN put out its own declaration showing some solidarity on this issue. The United States is-

sued by far our most comprehensive statement on this subject last May 10, almost exactly a year ago—and I ask that this full statement be included in the record, Mr. Chairman.

Mr. BEREUTER. That will be the order.

[The statement appears in the appendix.]

Mr. LORD. But interesting enough for this discussion, the fact that the ASEAN Regional Forum meetings were coming up, first the senior meetings in May, and then the ministers in August. I think they serve to concentrate the minds of the various players, including China, about the need to resort more to diplomacy rather than other activities.

And as a result of not only the statements that we at ASEAN made, but the fact that the forum was coming up in its sessions, China agreed for the first time to discuss this issue multilaterally, not just bilaterally. China reaffirmed the rights of navigation, which is very important to us in this area; and the fact that any solution would have to be consistent with International Law of the Sea and began discussing this issue in the ASEAN Regional Forum.

The basic positions have not been changed. This is still a serious possibility. But the fact is that we have at least diffused the tensions. And I think these regional security dialogs played a role in that. So we can already see the potential of the ARF and these other dialogs.

Mr. Chairman, I then go on to regional arms sales, and lay out our policy goals which are key to the guidelines established in the U.S. Policy and Conventional Arms Transfer as signed by the President in February 1995. And my paper outlines our basic approaches to arms sales in the region, and the factors driving the purchases of arms by the Southeast Asian nations.

We do not believe there is a major arms race underway, however. And we believe these countries do have the right to purchase legitimate items of self defense. We think we have a balanced policy which serves our security and commercial as well as arms control interest in the region.

And we can get into greater detail in the question and answer session.

I then make a very strong pitch for another part of our security program in Southeast Asia, and that is the International Military Educational Training or IMET.

For those interested in human rights, you should be interested in IMET. It promotes human rights and democracy through training, by exposing military officers to concepts of military justice and human rights. We have seen that has had some positive impact in a place even like Indonesia, for example. We genuinely believe that the more the military officers in these countries are exposed to the U.S. military, with its sense of military justice and civilian control of the military and human rights, the better off we are. So we make a very strong pitch for that in my statement.

I then spend some time in greater depth on the South China Sea territorial issues. Again, in the interest of time, Mr. Chairman, I will not read that out here. But as you have already agreed, we would like to submit for the record our full approach on that which, essentially, is neutral on the sovereignty claim but very forceful in

our desire: that these issues be resolved peacefully; that freedom of navigation be respected; that there will be restraint on the use of force; that law of the sea and international law will be respected, et cetera.

Finally, I spend some time on the Southeast Asia nuclear weapons-free zone which has been put forward by ASEAN. We have shown a willingness to sign nuclear weapons-free zone treaties, for example, in the South Pacific or in Africa or in this hemisphere when they were consistent with our security interests, navigation rights, operational needs, et cetera.

We have worked with ASEAN to try to influence the treaty and the protocol of that nuclear weapons-free zone. We have made some progress; but, frankly, there are still serious problems with it.

And I lay out in my statement why we cannot adhere to the Southeast Asia nuclear weapons-free zone at this time, why other nuclear states share our concerns, and we will continue to work with the ASEAN nations. But at this point we do not think we could adhere to that because it does not hinge on some important American interest.

In conclusion, Mr. Chairman, we have been working quietly but, we think, effectively, to build relationships with the Southeast Asian countries that reflect the new opportunities created by the post-cold war security environment and Southeast Asia's own dynamic economic and political growth.

I have described today the key elements of those relationships: our alliances; our forward military presence; a "places, not bases," strategy that provides our military with access arrangements and operational cooperation; practical support through IMET and foreign military sales that enhances Southeast Asian military cooperation with the United States, consistent with our global conventional arms transfer policy; new and expanded multilateral cooperation through ASEAN and through these regional security dialogs, most prominently the Asian Regional Forum, that complement our bilateral relations and our forward presence; and U.S. support for the efforts of the nations in the region to address potential regional trouble spots such as the South China Sea.

Mr. Chairman, we believe that cumulatively these policies are promoting a more stable and mature relationship with Southeast Asia that serves U.S. interests and enhances regional security.

Thank you very much.

Mr. BEREUTER. Ambassador Lord, thank you very much. We have given you a very difficult task to cover a whole range of important issues in the region. And I appreciate the difficulty you had in the time available, and the way you attempted to accomplish what you set out to do.

Next we will hear from the Assistant Secretary of Defense, Dr. Campbell.

Please proceed as you wish.

After that, we will open the questions for both of you gentlemen combined.

STATEMENT OF DR. KURT CAMPBELL, DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR EAST ASIAN AND PACIFIC AFFAIRS, U.S. DEPARTMENT OF DEFENSE

Dr. CAMPBELL. Thank you very much.

Mr. Chairman, since we have a full group here, I think I will just take the opportunity to quickly review a few points in my testimony in an attempt to limit repealing some of the points that Secretary Lord has already made and then try to answer some of the questions preemptively, if I might, from some of our members here this morning.

It is interesting to reflect that it was only a year ago in the celebration of the 50th anniversary of the conclusion of the Second World War that members from around the Pacific, from Southeast Asia, from Northeast Asia, from the United States, gathered to reflect on, essentially, the most profound period of economic dynamism in world history, the last 50 years of the Asia Pacific region.

At the same time, there were private reflections on the 20 years since the conclusion of the war in Vietnam.

At that time there was quite a bit of congratulations on how much the region has progressed. But, frankly, in the time since, we have seen a couple of events that have underscored the essential fragility of peace and stability in the Pacific. I am referring to the events in the South China Sea, the Spratly Islands and the so-qualified incident on Mischief Reef and, of course, just 2 months ago, the tensions in the Taiwan Strait; and I would just underscore that in these situations, the United States played a critical role in the ultimate resolution and resumption of relative peace and stability.

In the South China Sea we had a powerful statement about our national interests in maintaining freedom of navigation and freedom of the seas.

And, Congressman, you have had several hearings about the situation in the Taiwan Strait and the role the United States played with the dispatch of the two carrier groups.

In response to some of the queries from the members of the subcommittee, I would like to take a couple of minutes to describe what we think are some of the consequences in the region of the recent tension in the Taiwan Strait.

First let me take a couple of minutes to underscore what I think are the three legs of our strategy in Asia, South Asia and North Asia combined.

I think an interesting way to think about this potentially is three laterals: unilateral, bilateral, and multilateral commitments.

We often talk—and there is a bit of debate occasionally—about the tradeoffs between bilateral and multilateral efforts. But the point I would make, and the point that I think the region would underscore is that essentially any effectiveness of bilateral or multilateral efforts rests on the fundamental American unilateral commitment to keeping deployed forces in the region.

Two years ago, the Pentagon put out the East Asia Strategy Report, the so-called EASR. In it we made a commitment to keep 100,000 troops forward-deployed. It was a commitment welcomed by our allies. Even some of the other states in the region like China, privately, I think, have an appreciation that American for-

ward deployment eases some of the tensions that they would confront if we were not there.

So that unilateral complement, perhaps, is most fundamental. On that foundation, we are able to build our bilateral relationships, our treaty relationships in North Asia with Japan and Korea, Southeast Asia, as Assistant Secretary Lord has indicated, and Taiwan and the Philippines, and also our bilateral contacts and meetings with important states in the region, such as Indonesia and China.

We have been involved, in the last couple of years, in a process of attempting to revitalize and reevaluate these bilateral relations in the post-cold war world. Indeed, when President Clinton was in Japan about a month ago, we issued the U.S.-Japan Joint Security Declaration which is an attempt to put the U.S.-Japan bilateral relationship on a footing for the 21st century.

Then, when these unilateral and bilateral relationships are secure, we are able to depart and consider multilateral efforts at confidence building, exchange of information, and the like.

We have discussed the possibility of a more formal multilateral arrangement in Asia. As all of you know who deal with our Asian friends, they grow wary and a bit unhappy occasionally when we attempt to adopt the European analogy, such as NATO, to the situation in Asia. It is a very different and more complex situation. But as Secretary Lord indicated, we intend to work with our Asian interlocutors on institutions like ARF for the future.

Essentially, the United States plays a unique role. We are the only "honest broker" in the region, the only country that is uniformly seen as a steadying force. And that role is as important today in the post-cold war world as it was during the period when the Soviet navy patrolled the waters of the Western Pacific.

In response to some of the questions we received earlier, Mr. Chairman, let me talk to you very briefly about what we think are some of the important ones, like the situation in the Taiwan Strait.

Let me make three initial remarks and then four and five as we move forward.

We would estimate, now that we have had a bit of time to reflect on what has transpired, that overall, the Chinese actions have been quite unproductive for their long-term strategy in the region and clearly for what they attempted to accomplish in Taiwan.

First, President Lee Tung-hui received, we estimate, a large mandate because of the actions, the provocative actions, military actions, in and around Taiwan, before the election. In fact, the electorate appears to have taken a very strong stand, an intention to support President Lee Tung-hui in this.

Second, clearly, the Chinese did not anticipate their actions would lead to the most powerful display of American interest in 20 years with the dispatch of two carrier battle groups to the vicinity.

This clearly was not in China's interest. And such a powerful visible display has received a tremendous amount of both public and private support in Southeast Asia and from our allies across the region.

Third, although China attempted to isolate the tensions, so to speak, to the Taiwan Strait, the unintended consequences of their actions were felt throughout the region.

Many of our interlocutors in Southeast Asia, it is interesting to note here, did not support Taiwan's actions in advance of the Taiwan Strait crisis. They felt that some of the actions that Taiwan had taken were provocative. Nevertheless, they were concerned and continue to be concerned about whether the actions that China has taken would be a harbinger for how China might approach other regional problems or territorial issues with other states in the surrounding region.

So I think there is a heightened concern and a higher degree of interest in how China will behave as we go forward in a variety of these situations.

Last, Mr. Chairman, we have seen two things in the last month or so that I think bear repeating, one very positive and one of some concern.

First, we were heartened on May 20th, during Lee Tung-hui's Presidential speech in which he very courageously, in a statesman-like way, reached out his hand to Beijing in an interest to reestablish a high level dialog. Now we are still awaiting an official—or shall we say a response to that. But we think that is exactly the right course of action, and we support him in this endeavor.

Second, of a more ominous note, we are also frankly concerned by some of the lessons that the Chinese military have drawn from the situation in the Taiwan Strait.

You can almost see some of the war plans that we had not seen or heard discussed since the 1950's being dusted and brushed off.

The Chinese military, the PLA, we believe has made an assumption that they need to improve their capabilities for various potential scenarios that might relate to a situation in Taiwan. Clearly we will continue to watch that carefully. We are concerned about it. And we, as we move forward in our dialog with PLA, will address those concerns with them in due course.

In conclusion, Mr. Chairman, let me just talk about a couple of issues that were raised by the committee.

On the pre-position question vis-a-vis Thailand, we believe there were a number of factors, including domestic political considerations, that led Thailand to disapprove our request. But I would leave it to the Thai Government to answer the question about their ultimate reasons. We accept Thailand's decision on our pre-positioning request, and we do not anticipate making another request of Bangkok at this time.

We are reviewing our pre-positioning requirements on a worldwide basis in the Joint Chiefs of Staff, and inter-agency with the State Department.

A couple of other concerns. Congressman Berman rightly pointed out that the increase in arms spending in Southeast Asia is an issue that we are interested in. We follow it closely.

As Assistant Secretary Lord indicated, there is sometimes a very subtle distinction between legitimate modernization and an arms race. We see an interesting amount of dialog about these issues in Southeast Asia. We are concerned not only about quantitative movements but qualitative ones as well. We have seen signs of restraint in Southeast Asia.

We are exhibiting signs of restraint with the certain kinds of weapons systems that we have held back with. We will be looking,

frankly, to institutions like the ARF in the coming years to serve as a mechanism for enhancing communication and increasing transparency on these various issues, and will be watching it very carefully.

Last, in response to some of the points that Congressman Royce has made, we will continue to be very interested and concerned about China's intentions and capabilities—intentions in situations like Taiwan and Hong Kong, and military capabilities.

China is in the process of an extensive modernization. They are a major power. They will be a major power. It is in our interest to have dialog with them.

We hope to establish that dialog in such a way that when our forces come in greater contact, as they inevitably will, on the high seas and in the air in the Western Pacific, that we have a greater degree of understanding of how we would operate in the future.

With that, Mr. Chairman and members, I would conclude and take questions at your convenience.

[The prepared statement of Dr. Campbell appears in the appendix.]

Mr. BEREUTER. Thank you very much to both of you gentlemen. I let you go on at some length because of the importance of what you had to say, because you addressed our problems, and because you, I think, rather accurately, in all probability, preemptively addressed other questions from the panel.

We do have an important second panel, so I would say to the members: We will need to adhere strictly to the 5-minute rule as we proceed.

We were joined in the midst of Ambassador Lord's comments by the distinguished chairman of the full committee, Benjamin Gilman.

We appreciate you joining us once again; and I would yield, because of his schedule, my normal place in the beginning of the line of asking questions, to the gentleman from New York.

Mr. Chairman.

Mr. GILMAN. Thank you, Mr. Chairman. I thank you for conducting this hearing in a timely manner.

I want to welcome our panelists, Secretary Lord and Dr. Campbell.

Dr. Campbell, I think the DoD made an assessment that Vietnam can do much more unilaterally to account for our missing.

Is that an accurate assessment?

Dr. CAMPBELL. Mr. Chairman, I am not exactly sure what report you are referring to. As you know, there is a separate office in the Pentagon that is responsible for POW/MIA affairs, and they speak on these issues.

I think the general assessment has been—and there has been a recent Presidential delegation that returned from Hanoi not long ago—is that Vietnam has been cooperating since the resumption of diplomatic relations and has assisted in the provision of information relating to POW and MIA issues in Vietnam.

Mr. LORD. I would be glad to supplement that, if you would like.

Mr. GILMAN. Please.

Mr. LORD. The conclusions of the Administration throughout is that Vietnam has been cooperating. We have made this our highest priority.

We have given greater emphasis in the last year or two to unilateral, as well as joint, efforts. So there has been an effort to see what Vietnam could do, whether it is with respect to documents or remains or other objectives on a unilateral basis. We believe they are cooperating on that front as well as on the joint front.

And in this regard, Mr. Chairman, the President has just signed—and we are in the process of notifying the Congress—a provision in the omnibus appropriation bill about the full faith—I forget the exact wording right now—cooperation of the Vietnamese on the MIA question.

We do not believe a particular provision was constitutional; but in the spirit of comity we have cooperated, and the President has certified this, and the Congress is being notified about that.

Mr. GILMAN. Mr. Secretary, there was a recent news report that Vietnam has not yet begun to implement its March 1996 pledge to increase its unilateral accounting efforts.

Is that accurate?

Mr. LORD. That is inaccurate. I mean, they have been—we continue to press for the fullest possible cooperation, but they have been turning over documents. They have been lining up witnesses. They have been helping our joint field investigations. They have been coming forward with unilateral reports. We will keep after them for the fullest possible cooperation.

But we believe they are cooperating, otherwise we would not have normalized relations as we have.

Mr. GILMAN. Well, has their unilateral action been underway now to try to search for our missing?

Mr. LORD. Yes. Whether it is documents or remains, in addition to the very important joint actions. As I say, in the last year or two, we put more emphasis on the unilateral aspect.

Mr. GILMAN. But I am asking, have the Vietnamese engaged in unilateral action as they have promised to do?

Mr. LORD. Yes, they have.

Mr. GILMAN. What specific actions have they engaged in?

Mr. LORD. They have engaged in locating documents and turning them over. They have engaged in lining up witnesses, for example, to help us in Laos. They have engaged in joint activities more fully by making sure that when we reach villages and so on that we can have full cooperation. They have come up with information unilaterally that we had not even asked for.

We can give you more detail. I did not realize this would be the subject of this hearing in great depth. But we would be glad to give you greater detail, particularly the office—

Mr. GILMAN. Could you prepare that kind of a report?

Mr. LORD. I would be happy to, Mr. Chairman. I would like to refer that request—although we will work with them—to the proper office in the Defense Department, Deputy Assistant Secretary James Wold.

Mr. GILMAN. Have the Vietnamese made any of the prison records available to us?

Mr. LORD. Prison records?

Mr. GILMAN. Yes. Of POW's.

Mr. LORD. It depends on what you mean by "prison records." We have visited some prisons; we have seen some records; but I do not know that we have—

Mr. GILMAN. Any records of prisoners of war.

Mr. LORD. They have given us plenty of records of prisoners of war, yes.

Again, we can give you a comprehensive report.

Mr. GILMAN. Yes.

Mr. LORD. We have submitted comprehensive reports, but we will submit them again.

Mr. GILMAN. Mr. Secretary, what is the extent of PRC-Burma military ties? Can you tell us what the relationship is? Do you see Burma's security relationship with China as a regional security threat?

Mr. LORD. First of all, it is an extensive relationship. As you know, we enforce a strict arms embargo with respect to Burma. We urge others to do the same. But China has certainly not been following that course. They are probably the major supplier of military assistance to Burma. It is, of course, a concern.

I think, in terms of actual threat of will Burma be a military threat to its neighbors, I do not think we are at that point. We have serious problems with their human rights and their narcotics and other policies. But despite the military assistance they are getting, I would not call them a military threat to their neighbors.

But it is obviously a cause of concern, this connection; and we try to discourage it with lack of notable success.

Dr. CAMPBELL. Just one other point, Mr. Chairman, on this.

Burma is one of the cases where we take a very principled stand, as Congressman Rohrabacher has argued. We have pushed hard for isolating Burma.

I must tell you, it is a difficult case in Asia. And it is one of those cases where we realize some of the limits of taking a very strong position.

Many of the countries—indeed, most of the countries in Asia—Japan, Korea, and virtually every country in Southeast Asia—insist on maintaining contacts and believe that their approach and their kind of engagement is the right approach. So, frankly, we stand virtually alone in taking a policy of relative isolation.

Mr. BEREUTER. I thank the chairman for his questions.

The gentleman from California is recognized.

Mr. Berman.

Californians are too plentiful here.

The gentleman from California, Mr. Berman.

Mr. BERMAN. Thank you, Mr. Chairman.

I am curious. When you deal diplomatically with the countries of Southeast Asia trying to encourage them to help you in your efforts to isolate Burma and they talk about how they feel their approach is so much better, do they have any indicators?

I mean we have watched, in the last week, the efforts to arrest delegates to this Congress, a peace pact with a drug lord who is apparently now being purified and stamped with approval for his dealings.

It reminds me very much of some of our European allies and their response to our approach to Iran.

And I am wondering, when do our allies have to come up with a notion of why their approach is working better than ours?

Mr. LORD. Well, as Dr. Campbell has suggested, we do have very intense debates with our friends in Southeast Asia about the—

Mr. BERMAN. Well, let me just—when we get right down to it, are those arguments anything other than a smoke screen for serving their economic interests?

Mr. LORD. These are friendly countries. I am not about to ascribe motives here. But there is no question of economic interests.

Let me give you what their argumentation is, and it is obviously not persuasive to us, even as our argumentation is not persuasive to them.

First they say: We are closest to Burma geographically, culturally, historically; we think we know more about what we should do there than the distant United States. I mean, that is one principle they put forth.

Second, they make the general proposition that, if you isolate them, they are going to be more dangerous and they will rely more on China and it is better to open that place up with trade and investment and generally have an impact on their policies through engagement.

Third, every now and then when something does happen, they will point to their policy as helping to produce it. For example, the release of Aung San Suu Kyi a year or two ago.

Now, none of this we find particularly persuasive. I am just trying to tell you what their arguments are. Of course they have economic incentives here as well, but I am not about to denigrate their motives. I think they generally feel that they are better off trying to engage Burma.

They do claim they make some statements about their policies. We have not seen a great deal of evidence in that. I will say that recently Japan has become somewhat more ambivalent about its engagement policy and has made some strong statements to the Burmese.

So this is an example of where we have friendly relations with these Southeast Asian nations as well as others in Northeast Asia, and we just disagree on this particular issue.

I do not know how else to respond to it.

Dr. CAMPBELL. Congressman, can I make one other point that is often, I think, underscored by the three points that Secretary Lord has indicated?

Japan is an interesting exception. Of late, they have become more interested in, shall we say, the domestic components of policy.

Generally, in Asia, Asian states are often loath, almost neurotic, to discuss domestic matters of policy. They will talk about regional behavior, international issues, but often will be very wary about venturing views or, indeed, taking steps about domestic policy.

Of late, we have seen in Japan, and in a few other countries, a greater interest and appreciation of the role in democracy as sort of a generator of good foreign policy. But on this particular issue, we have pressed very hard; and for a variety of reasons, as Sec-

retary Lord has indicated, not much headway has been made with respect to Burma.

Mr. BERMAN. Let me ask a different question. We no longer have any bases from Japan and South Korea, what? All the way through—let us see. Where? Where would our next nearest—

Mr. LORD. Australia we have bases.

Mr. BERMAN. Australia.

Are we able to maintain our deployments and our commitments adequately with this kind of a basing situation?

What is a role of a country like Singapore? What are they doing to help us maintain this presence? Are these substitutes or bases adequate to allow us to do that?

Mr. LORD. Well, Dr. Campbell should address this; but let me just make a couple of general statements.

I think, as I indicated in my rather breathless opening remarks, it has been encouraging that since we had to leave the Philippines that all the nations of Southeast Asia, one way or another, have shown their desire to keep us engaged by trying to compensate for that withdrawal.

And Kurt Campbell can give you a greater rundown in terms of how effective this is for our deployments. But clearly we do believe that this has well compensated. Those were important bases.

But Singapore receives 80 to 90 U.S. Navy visits a year and holds periodic stationing of U.S. Air Force contingents.

Malaysia makes available commercial repair facilities as does Indonesia.

Brunei is conducting joint training. We have joint military exercises.

I will let Dr. Campbell go into greater detail, but I think they have demonstrated, through their access arrangements, their desire to support our engagement in their own self-interest as well.

Mr. BEREUTER. Dr. Campbell, you may continue to respond. Do it as briefly as you can.

Dr. CAMPBELL. I will. Thank you, Mr. Chairman.

Mr. Berman, I can give you or your staff members a very detailed rundown of our various access relationships from Singapore to Malaysia and the Philippines and Thailand. I think the general trend is clearly upward in the last several years. Many states have stepped up in the wake of our departure from Subic and Clark. The access arrangements in some cases are quite formal, sometimes informal. Access is sometimes a diplomatic way of getting pretty close to basing in certain situations.

Again, we can brief you on that privately.

The general assessment of our Navy and Air Force which have the primary deployments in the region, is that they have what they need and that they continue to explore opportunities as they become available.

I will say one thing, though, Congressman, the tragic rape last year in Okinawa clearly underscored how potentially vulnerable our forces are in a place like Okinawa and how we have to take very, very clear steps to improve our community relations, reduce our footprint, and be better neighbors.

I think that has alerted all the command and the Pentagon, and we are working closely to try to take appropriate steps there.

I will say in recent months, with various tensions of the kind that we have been describing here, we have seen a greater interest, sometimes quite private, in exploring ways that the United States can be even more effective in maintaining its forward deployed presence.

So, generally speaking, we are satisfied with the support we receive from Southeast Asia.

Mr. BERMAN. I would be interested in seeing if you would be willing to detail this. I would also be interested, to the extent to which any of these countries are providing costs, in a sense, to help reduce and to defray our expenses.

Mr. BEREUTER. If you could provide that, I think it would be good to provide it to the whole subcommittee.

Mr. Berman, I appreciate you asking questions about Burma. I would say, to my colleagues, I have been contacted by more members outside the Committee on Burma in the last 6 months than on any other issue. And members are deeply conflicted on U.S. policy regarding Burma.

Mr. LORD. Could I just correct one thing I said earlier, to make sure the record is accurate?

I think I referred to bases in Australia. We have tremendous military cooperation from Australia. It is technically access to training facilities, ports, and logistics and not bases per se.

And the whole concept of "places, not bases," is defined to give you the logistics and operational support you need; but you do not run as much risk of the political problems of having a permanent base.

Mr. BEREUTER. Mr. Kim.

Mr. KIM. Thank you. I have a few quick questions.

The first one has to do with the human rights issue. I know it is a congressionally mandated requirement, but U.S. embassies in foreign countries have to come up with an annual human rights report. Sometimes these countries contend it is nitpicking issues, sometimes insulting, sometimes overly exaggerated, and untrue. And they have been telling me—especially in Singapore, Malaysia, and Philippines—that they protest certain contents of the report; yet we ignore them and the following year another one comes out.

And I understand that the State Department is required to come up with the report about every nation in the world, including Canada and England and Japan.

I think it is silly. I think it is wasting our resources, and I hope that we will change that.

Now, if Congress were to change the human rights report requirements, what would be your recommendation?

Mr. LORD. That is an excellent question. I do not have an official answer, because I know this is congressionally mandated, as you know.

Mr. KIM. I understand that.

Mr. LORD. And we have tried to prepare these reports in as balanced a fashion as we can, to be fair to the countries but also to highlight it.

But I honestly do not know whether the Administration would just as soon not have this congressionally mandated across the board.

I do not think I could give you an answer, but let me try to get one for you.

Mr. KIM. All right. It is silly, isn't it?

Mr. LORD. Well, no. I am not allowed to——

Mr. KIM. The next question is——

Mr. LORD. Wait a second. I am not allowed to say it is silly.

We think it does serve some useful purposes. Seriously, it does. But obviously there are some costs involved. And I think if we are going to promote democracy and human rights——

Mr. KIM. I understand that.

Mr. LORD [continuing]. we need some way to do it. Whether this is the best way, let me tap dance on that.

Mr. KIM. My second question is: Again, I was impressed by the high caliber diplomats representing us in Singapore and Malaysia and the Philippines.

However, since all the military bases have been closed in the Philippines, why do we have such a huge staff out there in the embassy in the Philippines? We have 387, plus or minus. Yet I saw a real lean operation in Malaysia.

Can you tell me why we still have such a huge operation out there?

Mr. LORD. Yes. First let me say for the record that I very much appreciated your extremely friendly letter about your trip to Southeast Asia and the support you got from our embassies and our ambassadors.

So I want everyone to know that Congressman Kim writes friendly letters as well as other kinds of letters; and we appreciate that. I am glad you felt you were well served.

We have been reducing our presence in the Philippines to a great extent. And let me submit for the record later, if we can, some figures on how that presence has gone down.

There is no question, with the removal of the bases, we do not need as many people in the Philippines. And Ambassador Negroponte and others have been very vigorous in trying to reduce the size of our presence. Much of this is not State Department, as you know; and so there are other agencies involved.

But the trend has been down. Let me give you some specific figures on that. I think it can probably go down further.

More generally, however, we feel that in this dynamic region, which we are highlighting today, including Southeast Asia, that we have gotten to the point now where we have been reducing our commercial and diplomatic personnel about as far as we possibly should and still be able to promote our commercial security, narcotics, refugees, visas, and other interests in the region. So I take your point specifically on the Philippines. I think we are moving in the right direction.

But I believe—and I know the Secretary and the President believe—that the budget squeeze on our operational resources, particularly in this dynamic region of Asia where we have jobs and exports at stake as well as all the other factors, is really going too far now and that we ought to be maintaining a forceful presence out there to project our interests.

Mr. KIM. All right. My last question, Mr. Chairman. I met quite a few people in those three countries and everybody loved to see

that we maintain strong military commitment to Asian nations out there in the region.

But what assurances have we given to Asian nations that we will be there in times of peace and in times of war, let us say, 20 years from now?

I think that they are afraid that we will abandon them, just like we did to Vietnam, when things get hot. And they are scared to death of this. And I would like to ask a question: How do you feel about this?

Mr. LORD. I will let Dr. Campbell begin.

By the way, I look forward to seeing your full report on the trip. And, again, I appreciated your letter.

Dr. CAMPBELL. Congressman Kim, as you know, in the wake of Vietnam, there was a tremendous concern, particularly in Southeast Asia, about American staying power.

But through the bipartisan leadership in Congress, among several Presidents and, indeed, among a variety of business leaders and the American public, clear appreciation of the linkage between American prosperity and security and Asian prosperity and security exists and, as a consequence, the decision to maintain a forward deployed presence there.

I would just say that, as we travel the region, there is not a meeting I go to that someone does not raise the very question that you did, Congressman: You are here now; you were there 15 years ago; will you be here 15 years in the future?

There is no amount of reassurance that is enough. We have to continually make that point.

I will tell you that the process of reassurance was more difficult during the last year than it has been in periods in the past.

They have come to accept a degree of Vandenbergism, if you will: that whole notion that internal debate on American foreign policy stops at the water's edge that we saw during the cold war.

Now in the wake of the cold war, when there is much greater debate between Congress and the Administration, whether it is Democratic or Republican, about what our foreign policy objectives and goals should be, there is greater discord. Foreign policy looks a lot like domestic politics and, as a result, leads to questions in Southeast Asia and elsewhere.

I think it is important to put a united front on the interest in keeping our presence and forward deployments there. I look forward to that debate as we go forward.

Mr. KIM. Thank you.

Thank you, Mr. Chairman.

Mr. BEREUTER. Thank you, Dr. Campbell.

Mr. LORD. Let me just quickly add that, first, I am encouraged whether it is legitimate foreign policy debates in this country about our role, generally, including Asia, but I found very broad bipartisan support—and I detect it today—for maintaining our force levels in the Asia Pacific region, as well as our U.S.-Japan-Korean alliances.

So this ought to be reassuring to our friends in the short term. Despite debates, this one does not come up for debates like China does or other policies.

Second, I believe the events of the past year have reinforced these nations' desire for us to stay on, whether it is activities in the South China Sea or the Taiwan Strait or DMZ incursions in North Korea and so on, people are reminded of the uncertainties, even though on the whole, this is a relatively stable region compared to other regions.

Mr. BEREUTER. Ambassador, I think you read the consensus correctly. I think it is as strong a consensus as exists on any major foreign policy issue with respect to the Congress's attitude. And I am speaking specifically about maintaining our current military naval capabilities for the long term.

The gentleman from California, Mr. Royce.

Mr. ROYCE. Thank you, Mr. Chairman.

Ambassador Lord, my local paper reports yesterday that the Communist regime of Vietnam finally has released from prison Binh Tran, a U.S. citizen and resident of Anaheim but only after her family in America paid the regime \$15,000. To let her leave the country, the regime is demanding the family pay the rest of the fine it imposed on her; \$180,000.

The newspaper reports that she was arrested 2 years ago, forced to have an abortion, and sent to prison for 18 years. She is one of at least 10 Vietnamese-Americans being held on unsubstantiated charges, six of them U.S. citizens.

The rhetorical question asked by my local paper—it says: A U.S. citizen in a foreign country—she is a U.S. citizen; the foreign country is holding her for ransom—are we so weak now in the world that we cannot protect our own citizens, they ask: “As a U.S. citizen, you have a passport. Even if you did something wrong, it used to be that you called the embassy and they made sure you were treated decently and had a fair trial, but they do not do it any more.”

I would like to ask if you would commit to do what you can to see to the decent treatment of U.S. citizens held in Vietnamese citizens and, in cases like this, where ransom is being demanded from the families in the United States, possibly to intervene and arrange for the safe return of the U.S. citizen.

Mr. LORD. First, of course, I will commit to our doing everything we can to protect the welfare of American citizens. We have been doing that and raising specific cases, and we will continue to do that.

Second, I have not read this particular article, and I am not familiar with the details of the allegations. Let us submit to you a much better response than I can give you right now.

Mr. ROYCE. OK.

Mr. LORD. She has been released. There are some legal aspects about privacy act waiver in terms of talking about this in the public. So I do not want to give you an incomplete or misleading answer, but we will get you a fast answer about this. I cannot respond to issues like ransom and so on at this point. But I can assure you that the fate of American citizens in Vietnam is extremely important to us, and we will continue to protect them.

Mr. ROYCE. Thank you, Ambassador Lord.

Mr. BEREUTER. Thank you, Mr. Royce.

The gentleman from California, Mr. Rohrabacher, is recognized.

Mr. ROHRABACHER. If I could follow up on what Mr. Royce is talking about. That is very important to our area of California.

And I would ask my assistant to submit to you, Mr. Lord, a list of 10 Vietnamese-Americans who are being held in Vietnam. And I would appreciate if you could respond in writing as to whether you believe that the incarceration of these individuals is justified or whether or not we are taking steps to see that they are free.

I would like you to state for the record—because this is very important for the Vietnamese-Americans as well as for the Vietnamese Communists to understand—U.S. citizens who are of Vietnamese descent, are they going to be receiving the same amount of protection—and we are expecting them to be treated exactly the same way as all American citizens—if they venture to Vietnam?

Mr. LORD. Well, any U.S. citizen gets equal treatment if they venture to other countries.

Mr. ROHRABACHER. Yes. What I am asking you for is a clear statement at this moment so the Vietnamese Government knows—because when I was there—and I have been there several times, as you know—there seems to be some hesitation on the part of the Vietnamese officials about the way they were going to be treating former Vietnamese who are now American citizens.

Perhaps you could let them know with a statement now that we expect all citizens to be treated alike.

Mr. LORD. Well, that has been our consistent position. I will reiterate it now, and I will be glad to include that as part of the answer in the letter.

Mr. ROHRABACHER. OK. That would be very good. I was hoping for a little bit more forceful statement right now, frankly, on that; but I will accept it in writing as well.

Mr. LORD. Well, I can add one more detail. We worked very hard on this issue before we opened up liaison offices, and we got the Vietnamese agreement of equal access to all American citizens in Vietnam, no matter what origin.

So we did insist very strongly on our principle before we opened up the liaison office.

Mr. ROHRABACHER. And for the record, Mr. Chairman, Vietnamese-Americans are some of the most freedom-loving, proud citizens that we have. And, yes, like most other Americans, they trace their heritage back to another country.

And we expect the U.S. Government to fully back up our citizens, no matter what background they are, whether they are Vietnamese-Americans or otherwise, who go to other countries, especially to the countries of their origin, especially if that country, like Vietnam, is a dictatorship, we expect the U.S. Government to protect their rights overseas and to be their champion. That is our job as the U.S. Government.

If a Vietnamese-American is arrested in Vietnam, we do not expect our government to poo-poo it. We expect our government to be the champion of their own citizens and not let these people languish.

So I would hope there would be a clear statement on that in your letter and that the Vietnamese regime understands that all of our citizens are cherished in the United States of America.

Mr. LORD. Well, Mr. Congressmen, I cannot let go by things like "poo-poo." That is just totally inaccurate. I do not know how I can be any more forceful than I have been. I have told you—and I will repeat—that any American citizen deserves our full support—I happen to be married to an immigrant, so I consider all of these principles extremely important on a personal basis.

So I can assure you that is our approach in Vietnam, as it is in other countries. I do not know why you do not think I have been forceful on that. I cannot be much more categorical on that. We have talked very strongly to Hanoi about this subject, as I have just mentioned, as we move forward in normalization. And I can assure you that it will continue to be our policy.

Mr. ROHRABACHER. After we have an agreement with the Vietnamese, how many days after an arrest of an American citizen does it take before we are actually permitted to visit that American citizen in Vietnam?

Mr. LORD. We're supposed to be notified within 48 hours. The Vienna Convention covers this. We have had satisfactory responses in some cases and some delay in others. But, again, I will include that in my response to your questions.

Mr. ROHRABACHER. All right. Because I have noticed here that one of the Vietnamese-Americans that was arrested was arrested in May 1993; and he was not visited by the American officials until November 1993.

And, of course, I would hope that as we are expanding our diplomatic presence in Vietnam, that this not happen again.

By the way, Mr. Gilman was mentioning the records; and just for the record, again, have the Vietnamese been any more forthcoming with the records of the prisons in which American POWs were being held?

I remember requesting this information years ago and requesting it over and over again over the years, and I was told that none of the records of the prisons at which our POW's were held had survived the years, that they had all been destroyed.

Mr. LORD. We will get you an answer to that.

Mr. ROHRABACHER. All right.

Mr. Chairman, if you would indulge me just one more minute.

Mr. BEREUTER. We will extend you another minute.

Mr. ROHRABACHER. I, of course, am very interested in Burma; and I am very pleased that the Administration has spoken out with a firm voice for democracy in Burma. And I am very pleased also in your statement about Cambodia today. We are all concerned about Cambodia and what is going on there; and your statement today, I think reflects all of us in our concern that they keep going toward democracy and not back toward repression, and we will be watching very closely.

But in Burma there is something very substantial we can do. I have a piece of legislation, H.R. 2892, which would basically prohibit further American investment in Burma until the Burmese Government ends its repressive ways.

Does the Administration support this legislation?

Mr. LORD. Mr. Weideman, my deputy, testified about a week ago; although, he was not able to testify, actually. He had a statement,

and then other witnesses were called, and he never got to make his statement. But he submitted it in any event.

We share, not only the objectives, but also the concern of the Congress on this. We are willing to work—and this is in response, actually, to the McConnell legislation, which I guess is roughly—

Mr. ROHRABACHER. It is similar.

Mr. LORD [continuing]. parallel to yours, so our attitude would be the same.

We do not like the mandatory aspect of some of these sanctions, but we would be willing to work with the Congress to see whether we can devise a more forceful posture than we now have about the possible use of sanctions.

We do not like to be boxed in on tactics in advance, but we are sufficiently concerned about developments there, that we have indicated in his testimony our willingness to work with the Congress, retaining some flexibility for tactical reasons but how we can use at least the threat of sanctions to forward our objectives in Burma.

Mr. ROHRABACHER. Well, I appreciate the words, but I will say that throughout the world people pay attention to what we do. And if we just use words and we do not stand firm and change policy like this and make a policy stand, people think our words are hollow.

And especially here we have a situation where we have a chance to do something to show the Burmese regime that we mean business.

Here, at least in one country that is not strategic to the interests of the United States but where we can stand for principle, we do not seem to be doing it. And at the same time, I might add, we talk about decreasing our presence in the Philippines. Here is a government that has gone overboard to try to be democratic; they have had democratic elections; the Philippines deserve our wholehearted support, and here we are talking about, you know, stepping back from the Philippines and not putting any pressure on the Burmese.

It seems to me the message is not that we are a champion of democracy any more. In fact, we are going out of our way to bend over backwards for the less free countries and drawing back from those countries that have had democratic reform, like the Philippines.

Mr. BEREUTER. The time of the gentleman has expired.

Mr. LORD. Well, let me respond to these.

Mr. BEREUTER. Briefly, Mr. Secretary.

Mr. LORD. With all due respect, we share, as I have already said, our desire to promote democracy in the region. I think you are mixing up several issues here.

Mr. ROHRABACHER. I only had 1 minute left.

Mr. LORD. I understand.

On the Philippines we are just talking about how large a structure you need to support our legitimate interests in the Philippines now that we do not have this huge military base presence. It has got nothing to do with our friendship or growing interests with the Philippines. It has to do with the budget and what you actually need.

And the Congress, above all, would be outraged if we had more people than we could justify. It has got nothing to do with our love

of democracy, and we think the Ramos reforms and their movement toward democracy in the Philippines—it has turned the corner economically. It is going to host APEC this year. We are increasing our ties with the Philippines. It has been a major progress, bilaterally, in our relationship. Since we left the bases, we have got an even stronger relationship than we have had before. So let us not mix that up with Burma.

With respect to Burma, part of our problem is that none of these sanctions are effective if we are the only ones doing it. It does not mean we should not do it, for political and moral and symbolic reasons and some impact; but it does complicate our task, as Kurt Campbell was mentioning earlier. And I just cannot agree with our policy toward Burma. It is by far the most pressure-filled and forceful of any country in the world.

In Mr. Weideman's statement, I will just outline what he said: Since 1988, we suspended our economic aid program and have urged other donors like Japan to limit any assistance to Burma.

We do not provide GSP trade preferences.

We have decertified Burma as a narcotics-cooperating country, which requires us, by law, to vote against assistance to Burma by the multilateral development banks.

This, and our influence with our countries, have prevented most assistance to Burma from the IMF, the World Bank, and the Asian Development Bank.

We do not promote U.S. commercial investment and/or trade with Burma. We do not forbid it, but we do not encourage it.

ANITA, Eximbank, nor OPIC provides loans or insurance for American companies selling or investing in Burma.

We have strongly supported efforts in the U.N. General Assembly and the ILO to condemn human worker rights violations of Burma.

At the U.N. Human Rights Commission last month, we led the effort against attempts to water down the Burma resolution.

We have urged the United Nations to play an active role in promoting democratic reform through a political dialog with Aung San Suu Kyi.

We have refrained from selling arms to Burma, and we have an informal agreement with our G-7 friends and allies to do the same.

Sorry to go on at such length, but you asked for it.

Mr. BEREUTER. Thank you.

I thank the witnesses for their responses.

And, Mr. Rohrabacher, this gentleman has not taken a formal position on your legislation. He is not intentionally stalling it. I would say there are sharp differences of opinion upon your legislation, particularly centered in the Ways and Means Committee and Appropriations Committee. But I admire your willingness to take on cutting-edge issues on principle and conviction.

And I would also say that using this forum, as you did, to make it clear that we stand and insist upon the principle that all Americans, regardless of their ethnic background, be treated with respect and with all the rights that every American citizen would expect in a foreign country, it is entirely appropriate. So I appreciate you using your time for that expression of your concern, which spoke for all of us.

Mr. ROHRBACHER. Thank you.

Mr. BEREUTER. I have given my time up, but I would just like to say in concluding to the panel two things: I understand that there may be some reconsideration of the base-closing decisions in Guam with respects to naval facilities. I encourage you, in fact, to do that; and I would hope that, perhaps, you could come and speak with me and other members of the subcommittee about the prospects of reconsidering some of the decisions regarding naval facilities on Guam.

Second, to both of you gentlemen, the new Australian Government says they want to have a stronger, more important strategic relationship with us. I think that is certainly to be encouraged. I am not quite sure what that means, and perhaps you could come and visit with us about that.

Many people see Australia as being part of a linchpin kind of role for our interest, our mutual interest as well, in Southeast Asia in a security sense.

So I hope that you might explore that further if you need to, but come and visit with us about the Australian's recent comments.

Mr. LORD. We would be glad to do that, Mr. Chairman. Australia is one of our key allies out there.

The previous government was also very friendly to us. I want to make that very clear. But the new government has made clear that they want to give even more emphasis.

We will have a ministerial meeting. Both Secretary Perry and Secretary Christopher will be going to Australia this July for high-level meetings with the new government.

Mr. BEREUTER. The previous Australian Government was very friendly and very cooperative in every way, and I do not mean to imply anything else. But they have gone out of their way to suggest, we are looking for an even more enhanced relationship, which we could only welcome, I would think.

Thank you very much, gentlemen, for your responses to our questions and for your statements.

I would like now to call the second panel to the table. I have already introduced the gentlemen that constitute that panel, so take your position as quickly as possible.

[Recess.]

Mr. BEREUTER. Thank you very much for your patience. I hope all of you will stay. But if you are planning to leave, please leave quietly.

Thank you very much, gentlemen, for your patience. I hope that you enjoyed listening to the testimony and the exchange between members and our two Administration witnesses as well.

We are very pleased to have you here. Oftentimes, the private witnesses give us more candor and sometimes different views that are very important to us. And I am hoping that, in fact, you will be just that candid with us in expressing your views today.

I do not know if you were here, but I did introduce you by giving the background for all four of you; so I think I would like to move directly to your statements.

I am going to ask you to do the difficult and impossible; live with our 5-minute rule by summarizing your statement. I will give you a minute or two of grace, if necessary; but your entire statements will be made a part of the record.

And I think, unless there is some other suggestion, I will simply proceed as you are listed in my statement. And that would mean that General Michael Carns, we would very much appreciate you proceeding. You may summarize or proceed as you wish.

STATEMENT OF GEN. P C MICHAEL CARNS, USAF (RET.), EXECUTIVE DIRECTOR, CENTER FOR INTERNATIONAL POLITICAL ECONOMY

Gen. CARNS. Mr. Chairman, thank you very much for this opportunity to address this distinguished subcommittee.

Tensions are building in the Pacific, not unlike the front-page concerns now gripping us throughout the world.

You are struggling with an array of regional issues, not only because they are, by their very nature, difficult, in some cases almost intractable, but also because the terrain is not as familiar. Our approach and our methods in managing our Asian affairs reflect the experience and the style of the cold war. Even our posture is much the same, roughly 100,000 uniformed personnel deployed in the Pacific.

We seem to believe that the arrangements and alliances now existent should largely continue unchanged or, at best, undergo modest and evolutionary changes. For the near term, even the medium term, I think this will probably work. In fact, to change our approach in the Korean set piece today would be foolish at this juncture. North Korea, operating in very isolated circumstances, learns and accepts matters very slowly. Constancy is certainly called for in this cold war. Staying the course will ultimately resolve the stressful situation in a non-violent manner, in my estimation.

However, elsewhere throughout Asia, to include Japan, I would suggest we consider a new vision of U.S. military presence and our role. We need to recognize that new principles, policies, tools, and techniques may be more effective in dealing with the regional strategy demands and concerns of today.

With the politics and economics of communism discredited, Asian nations are no longer threatened by an external ideological power. Their amazing economic development, accelerated by their limited need to fund their own defense, needs to be normalized. In the globalization of relationships and trade, most everyone has a stake in every major issue.

Accordingly, rather than unilateral U.S. regional security guarantees, we should start moving toward assumption of individual and collective self-sufficiency.

In speaking to Congressman Kim's point, rather than power being the major military force in the region, we should advocate that all nations contribute to providing a more balanced security capability. And whereas we are major agenda setters in the region, we should advocate a broad grouping of nations assuming much more of this responsibility.

This potential policy of broad nation inclusion and dialog for problem resolution must be matched by a policy of common cause; that is, when working common regional problems, there must be common regional commitment; each nation much bring balance, contributions to the table, whether it is a fora, funds, food for humanitarian uses, or forces for military problems.

There are many difficulties in such an approach. First, it will require Asian nations that have looked to the United States for working difficult issues to increasingly confront the problems themselves within the region. This is not U.S. disengagement. It is a logical maturation of our relationship that should, in the long run, result in much healthier ties.

I am reminded of the U.S.-Philippines relationship. While stationed there in the late 1980's and later as the Deputy U.S. Negotiator for the U.S.-Philippines Defense Agreement, I became convinced that our relationship would start to improve the day that we left and not a day sooner. I believe that this is, in fact, what has happened: The Philippines matured quickly when left to their own devices; and our relationship is significantly better than any time in recent memory.

Next, to suggest that an approach would not be welcomed by China is, in my estimation, not the issue, nor their call. The emergence of a much enlarged group of Asian nations successfully coping with and working regional problems would present a challenge to Chinese dynamism on the one hand and the necessity for China to work regional issues multilaterally rather than one-on-one.

Third, it will probably require a constitutional change in the case of Japan. Japan should not be forever insulated from assuming the normal responsibilities and costs of sovereign nations. Over 50 years have passed since the end of World War II. Japan is now a democratic nation with a robust capitalistic economy. It is a major world trader and has amassed enormous wealth. It should return to assuming the full array of international responsibilities, to include resolving the concerns of its neighbor through dialog, confidence building measures, and long-term relationships. Over the long run, a strong, balanced, and responsible Japan is very much in the interest of the United States.

A fourth criticism to this approach is it would likely trigger area military modernization and additional armaments purchased by Asian nations. I believe it would; I believe it should; and I believe all parties would be best served, including the United States.

Why? Because it creates more confident nations who, in turn, must act judiciously, maturely, and responsibly when working regional problems.

From the U.S. standpoint, it could provide large amounts of excellent equipment to these nations at very competitive prices. This is distinctly to our advantage. Common weapon systems lead to common ways of operations, which in turn facilitates coalition building when threats arise.

Our experience in the Gulf, particularly, Saudi Arabia pertains.

And with a broader, more balanced capability in the Asian region, the United States could assume a lower force posture—other than in Korea until it is resolved—transferring these savings to badly needed investment and desperately needed modernization and technological updating of existing capability.

Let me move to my last issue and pass over other comments to emphasize the matter of non-proliferation.

While my testimony advocates military self-sufficiency between and among Asian nations, I support, in the conventional context, not their possession nor use of weapons of mass destruction. The

United States is moving away from such weaponry and I believe would welcome their eradication if all nations could be convinced to do so and effective safeguards were in place.

Such conditions are not yet available, and we should spare no effort to bring them about.

Meanwhile a nuclear deterrent strategy appears to be the best course of action for now. But the clock is ticking on its comprehensive effectiveness.

Nuclear proliferation has received much attention and effort. The Defense Department deserves great credit for their policy and initiatives in this area, while the results are not as positive as we would like.

Of major concern is chemical and biological proliferation, particularly the latter.

With the advance of chemistry and biology technologies, their use of weapons of mass destruction becomes easier and their control more difficult. Rogue nations and terrorist organizations have the potential to acquire, threaten, or even use such weapons, possibly without our knowledge until it is too late.

The constant drum beat of Undersecretary of the Navy Richard Danzig on this concern merits a more attentive hearing.

This is a first-order problem. Today's conventional methods rely mainly on intelligence for adequate warning. This approach is, in my judgment, woefully inadequate and very likely to lead to intelligence failure, one largely not their fault.

The task of discovery by intelligence pits very limited resources against the ubiquitous global problem that is not only growing but is increasingly beyond the purview of governments as new, potentially dual-use chemicals and biological products and processes move to the open market.

The Japanese subway tragedy pertains.

The more likely path of success lies, again, in a new vision. Substantially broadening the constituency and the technology made available for the Information Age could vastly increase potential for discovery.

International proliferation developments lend themselves to forecasting by exploiting advanced computer technology and extensive cross referencing of widely available open source material.

These growing information technologies, capabilities, and techniques can monitor vast amounts of open source commercial activity to log, store, and cross reference the sale and movement of missile, nuclear chemical and biological weapons components, equipment and technology.

Probably the most comprehensive data base on such commerce is maintained by the Center for Non-Proliferation Studies at the Monterey Institute of International Studies.

To sum up, new situations call for new approaches. We have very successfully coped with the major threat of communism through vigilance and enduring alliance of nations siezed with common cause and new approaches to military preparedness. New thinking is once again required, particularly in Asia, to cope with pervasive, regional stresses.

While we should maintain the capability to deal with global threats, we should endorse the vision that regional nations must

become more self-sufficient in providing for their own security, associating themselves in common cause to solve regional problems.

For this approach, Asia could be and would be a more confident and self-assured group of nations, coping with their regional problems and building enduring solutions.

The United States would benefit with better relations in Asia and a stronger group of friends and allies.

Should major stresses grip the area, the region's new, individual, and collective security posture would form the basis for problem and effective coalition building to confront and successfully resolve any threat to our community interest.

Sir, that concludes the summary of my remarks.

[The prepared statement of Gen. Carns appears in the appendix.]

Mr. BEREUTER. Thank you very much, General Carns.

Next we will hear from Dr. Emerson of the University of Wisconsin.

Thank you for traveling the distance to be with us today. Please proceed as you wish.

STATEMENT OF DR. DONALD K. EMMERSON, PROFESSOR OF POLITICAL SCIENCE, UNIVERSITY OF WISCONSIN—MADISON

Dr. EMMERSON. Thank you, Mr. Chairman. And I would like to thank you for inviting me to join you today and to share some thoughts on regional security in Southeast Asia.

Before I begin to summarize my statement—I appreciate your willingness to enter the full statement into the record—I would like to make just a few comments that relate to what we heard during the previous discussion.

First, Congressman Kim raised the question as to the utility of the annual review of human rights conditions in all of the countries of the world that has been mandated on the State Department by the U.S. Congress. We will recall that Secretary Lord, in reply, said, "I will have to tap dance on this." He is obviously constrained by his position.

I am not so constrained. I think that Congress should reconsider the utility of requiring the State Department annually to determine the conditions of human rights in Liechtenstein, for example, or Norway. It seems to me an altogether egregious waste of time on the part of an already overburdened State Department staff.

Furthermore, Freedom House, Amnesty International, and Human Rights Watch already annually issue comprehensive reports on human rights around the world. So that information is already available.

This issue does raise an interesting question, which I do not have time to get into here, namely: What criteria might be used by the State Department in zeroing in on those countries where clearly human rights practices are at issue, where there are violations? Perhaps Congress could consider this question and come up with revised legislation that would be closer to the intent that Congress had when it originally laid down this requirement.

Second, Congressman Kim raised the perennial question of reassurance. Having been involved in Southeast Asian matters for many decades, I can assure you that this is not the first time this issue has arisen. Americans go to Southeast Asia. The Southeast

Asians ask: Will you stay around? The Americans say: Yes, we will stay around. And then the next year, during the next visit, the same question is asked. Somehow the answer is not getting through.

One approach to this might be to take a rather different tack. In answer to their question, we might ask a question of our own: Why do you want us to stay around? It seems to me important that Southeast Asian leaders increasingly make explicit the reasons why they favor, for example, as most of them clearly do, an American military presence in East Asia, American commitments of various kinds. This overt acknowledgment, which has just begun in recent years in ASEAN, is, I think, very much worth encouraging.

We should try to connect our engagement with the ASEAN countries' own self-interest. That might work better than reassuring them in a way that allows them to think they are doing us a favor by letting us be there.

Finally, I was struck during the earlier discussion that there were no questions on Indonesia. Yet, clearly, Indonesia is the most important country in Southeast Asia: demographically and geographically; in terms of its resource base; and prospectively in terms of the future role that it could play in the region. This is not by way of criticism but simply to suggest that in the discussion time remaining we make up for the omission.

Now let me very briefly run through my statement. It is summarized on the first page. I really wanted to say three things.

First, the United States has a clear and compelling interest in the regional security of Southeast as well Northeast Asia.

Second, current political and economic conditions in Southeast Asia constitute an unusual opportunity for the United States to pursue its interest in regional security, not just unilaterally and bilaterally but multilaterally as well.

Third, in Southeast Asia, as elsewhere, Congress should treat the likely effectiveness of a proposed policy and its impacts on other policies as important criteria for adopting it or not.

Let me scan very briefly through the substance of my statement. I think the justification for the importance of Southeast Asia does not bear belaboring. I dare say most of us in the room are already aware of that, or we would not be holding these hearings.

I do want to note a rarely recognized fact. The economic growth of a country like China tends to mesmerize us. But if we look at the record in recent years, we will find that the average national economy in Southeast Asia has actually been more dynamic than its equivalent in Northeast Asia. Last year, for example, the average Southeast Asian economy grew at an 8-percent rate, twice as fast as its Northeast Asian counterpart at only 4 percent.

It would be wrong to extrapolate these figures in linear fashion. But apart from the fact that there are half a billion people living in Southeast Asia, ten important countries, economically, the region's future seems relatively bright. And that means opportunities for American business and an associated interest on the part of the United States in maintaining sufficient security to help keep the region's economies moving steadily ahead.

In my written statement I tried to illustrate the advantages and limitations of multilateral action by making specific recommenda-

tions to the State Department that it might consider as it prepares for the position that the United States will take in July in Indonesia at the next ministerial meeting of the ASEAN Regional Forum. The forum does, I think, serve American foreign policy purposes although it is rather unwieldy. It has many members. I do not think in any way it is a substitute for bilateral, let alone unilateral action, on the part of the United States. But I do think that the specific suggestions I made, which I will not repeat here, are worth considering.

Finally, in my statement I recommended effectiveness as a policy criterion. We have spent some time today discussing the Burmese situation. Let me briefly link these topics.

I am personally sympathetic to the argument that says we are better off trying to do good than feel good, whether in Southeast Asia or in any other part of the world. Without in any way minimizing or underestimating the egregiousness of human rights violations in Burma, I would prefer to see the United States move incrementally there, if possible in concert with countries that have more leverage over Burma than we do.

Such small but cooperative steps might actually result in some improvement, however modest, in human rights conditions in Burma. In contrast, a go-it-alone American effort to isolate Burma across the board, for example, by embargoing all investment and trade, would surely fail. Other influential countries would not go along.

Indeed, a unilaterally punitive approach would fail twice. It would fail, first, because it would not achieve the desired objective: to improve conditions for human rights in Burma. It would fail a second time by further diminishing the very limited leverage we now have over the Burmese regime's behavior.

Thank you, Mr. Chairman.

[The prepared statement of Dr. Emmerson appears in the appendix.]

Mr. BEREUTER. Thank you very much for your suggestion and the latter in particular.

Mr. CLAD, welcome. We look forward to your testimony. You may proceed.

STATEMENT OF MR. JAMES C. CLAD, RESEARCH PROFESSOR, GEORGETOWN UNIVERSITY

Mr. CLAD. Thank you. It is nice to see you again.

The burden of my remarks today, Mr. Chairman, particularly given the brevity of time, fall on the question of leadership transitions in Southeast Asia.

But before I do so, I would just like to point out that I think it is a common consensus, both in the region and in this country, that Southeast Asia is now more secure, more prosperous, and more at peace within its borders than at any moment in the contemporary era.

The "breathing space" that the United States provided to the ASEAN countries during its involvement in the Indo-Chinese wars in the 1960's and 1970's really did pay off for these countries, and laid the groundwork for sustained economic success unmatched in the developing world.

But there is, after 30 years, the sense of an ending of an era. These 30 years have seen a remarkably durable set of Southeast Asian leaders consolidating both their own position and their country's position within a regional environment characterized by two very important features: One, a focused, attentive U.S. diplomacy; and, second, an internally preoccupied China which, at the time, was only modestly capable of projecting its power.

The mood, as I say, is different today. Each of the preconditions for earlier stability—a focused, attentive U.S. diplomacy, preoccupied adjacent powers, and durable regional leaderships—now seems to be vulnerable.

Today you are hearing testimony about American diplomacy in the region and about the special question of China's intentions in Southeast Asia. Let me say something very quickly about both those two points before going to the leadership question.

In the last year, the Southeast Asians discerned a distinct improvement in U.S. policy over the 1993 to mid-1995 period. The Clinton administration's multiple agendas in Asia seemed to invite misunderstanding, bewilderment, confusion, and even antagonism from old friends in the region.

As of now, we do have, I think, a better sense of policy coherence; but there remain well-founded doubts about both American staying power and, just as important, American attentiveness to the region.

On the second question, on the question of outside powers in Southeast Asia, we have not heard once today, I believe, the question of India, an assertive power now being brought into the regional security discussions in Southeast Asia. But obviously, and indisputably, we have a situation where China, which once sought American power to counter the Soviets, now, quite plainly, wishes to see American power decline in the Western Pacific.

The question of China casts a long shadow on every other particular issue discussed so far today, whether the Asian Regional Forum, the expansion of ASEAN, the South China Sea disputes, or the acquisition of more modern weapons.

Let me turn, in the remaining time, to the question of leadership transitions, because it is the first of the three points I mentioned to you.

The contribution of resilient leadership structures—in Indonesia, Malaysia, Singapore, and Thailand, especially—to an orderly regional security climate cannot be overemphasized.

Even in the Philippines, after the disarray of the Marcos and Aquino years, we now see positive security contributions to the region from the administration of President Fidel Ramos.

But this hard work and this situation is beginning to change. This coincidence of outlook, which has been achieved over the three decades, Mr. Chairman, is beginning to change. And it is a very important and often overlooked issue that the comfort level these leaderships have among themselves is now something we can no longer take for granted.

In Indonesia, as Professor Emerson mentioned, we have a near total neglect in the Western press of recent, intense speculation about the President's future. His wife died last month. His family's disproportionate influence, to put it mildly, in commercial life is now very much on the talking and even the boiling point. And

while Indonesian elections are next scheduled for 1997, intense maneuvering has already begun.

And we overlook this fourth largest country in the world, and largest Muslim country, to our peril. Believe me, if things go bad in the transition in Indonesia, it is going to be page 1 news for at least a year.

The problem is that Soeharto's political skills have focused for more than three decades on identifying and removing challenges to his authority. He is ill-prepared to put in process a train that necessarily has to displace him.

There has been only one transition in Indonesia. 50 years of history. That was 1965-66. It was, quite literally, a bloody mess.

In Malaysia, we have a situation where transition is on people's minds. But it is much more easily managed. The reason for that is that there is an institutional ruling party, UMNO, the United Malays National Organization, which is going to have this October leadership contest for deputy positions within the party but will manage the transition.

But, nonetheless, a steadying hand in the region, we are now looking to the departure of that at some foreseeable time, and not very far away arguably.

In Thailand, the biggest transition issue hangs over a society which is now fitfully democratizing, which in the Thai sense still means carving out more space for civilian governments, vis-a-vis the military. But that issue is a sensitive one, and it is extremely sensitive, it is scarcely talked about overtly in Thailand at all, of the royal succession.

The Thai King, while largely ceremonial, plays an extremely crucial role in mediating between the two factions and the Thai military. We saw this vividly on television in May 1992 when the King invited the two leaders of the factions to crawl on all fours toward the throne.

Yet the King is thought not to be particularly well, and doubts hang over the ability of the Crown Prince to fill his very ample shoes.

In the Philippines we have a situation where President Ramos will be leaving in 1998. We also have other transitions coming up in the region, including Vietnam's party leadership and, of course, that long shadow over the region, Burma. Even Brunei's absolute monarchy cannot take its position for granted.

In this transitional situation, American diplomacy needs to be much more than a State Department effort in the region. It must also involve periodic and recurrent contact by Members of Congress going out to Asia and staying in touch with people closely involved with political transitions in those societies.

I would argue, sir, this Congress, this legislative branch, is failing in this important side of duty in recent overall American diplomacy in Asia. In a transitional moment of Asia's history, that kind of person-to-person contact is doubly important.

[The prepared statement of Mr. Clad appears in the appendix.]

Mr. BEREUTER. Thank you very much. Maybe I should send you over to talk to Roll Call and The Hill magazines who are constantly plaguing members about traveling now.

Mr. CLAD. Sure. Any time.

Mr. BEREUTER. Mr. Cossa, we look forward to your testimony.

Before I push the clock here to begin your testimony, can you take 30 seconds and tell us about the function or focus of the Pacific Forum that you represent?

Mr. COSSA. Sure, I would be happy to.

The Pacific Forum is a non-profit research institute that has been involved in Asian security for 21 years now, the last seven as an affiliate of CSIS here in Washington.

We work on multilateral security issues and try to promote dialog among nations. We are also one of the founders of CSCAP, the Council for Security Cooperation in the Asian Pacific.

Mr. BEREUTER. I do remember CSIS's involvement, so now I understand. Thank you very much.

Please proceed with your testimony.

**STATEMENT OF MR. RALPH A. COSSA, EXECUTIVE DIRECTOR,
PACIFIC FORUM CSIS**

Mr. COSSA. Well, thank you. I want to first of all associate myself with the remarks of both Don Emmerson and Jim Clad regarding Indonesia. I think this is the critical country in Southeast Asia, and TS importance is often overlooked.

Also, there would not be the success of ASEAN had it not been for Indonesia's willingness, as the big kid on the block, to cooperate with the southern neighbors. And that sort of turned around the thinking in Southeast Asia and has created a great example that other regions of the world or subregions ought to be following.

I mentioned, just a second ago that we are very much affiliated or associated with CSCAP, which brings together member committees in 15 different countries. As a result, I certainly have a bias toward multilateral security dialog and cooperation. And in my written statement, I have pages and pages of all of the benefits, the virtues of multilateralism.

I do, however, put in one very important caveat. And that is that I see organizations like the ARF, like CSCAP, as dialog mechanisms; they are aimed at promoting confidence and understanding; they do not today, nor perhaps will they ever represent security alliances aimed at countering or readdressing specific acts of regression.

This is not to demean their importance, but to say that these emerging regional organizations are no substitute for the U.S. bilateral security alliances that underwrite regional security today.

I believe that Asia Pacific multilateral organizations provide another opportunity for continued U.S. involvement and leadership. They should not be seen either as a substitute for nor as a threat to U.S. leadership in the region. Multilateralism and bilateralism are not mutually exclusive.

I believe, as the nations of Southeast Asia attempt to build a new post-cold war security framework which is centered around the Asian Regional Forum, most continue to look to the United States for leadership and for the continuation of our security commitments so instrumental to their remarkable economic and social progress.

There was a question earlier about the Southeast Asian nuclear weapons-free zones and if this was sort of sending some signal to

the United States that Asia wanted us out. I think that that is far from the case. It is my understanding from talking to the Southeast Asians that they worked very hard to try to develop a nuclear weapons-free zone that would meet our concerns. They are still trying to work with us to meet our concerns, and I think they have taken many of them into account.

Quite frankly if we had more strategic thinkers and fewer lawyers in the Pentagon, we would probably have already reached an agreement; but I think we will ultimately get there.

I think there is also a concern that many Southeast Asians today do question our commitment, they do continue to look for reassurances, as was mentioned. Others are wondering if we are capable of providing a leadership role even if we do remain committed.

I think in recent years, American foreign policy, all too frequently, has fallen into the hands of single-issue advocates who seem more willing to hold our long-term security interests hostage to less critical side issues that they are unwilling to put into a larger perspective. And the increased politicized foreign policy debate confuses, it disappoints, and it often or sometimes alienates our friends and neighbors as well.

I think, to many Asians, there is a widening gap between what the United States says and what it does and what our policy actually is. And I think U.S. policymakers need to be much more concerned and much more attuned to the mixed signals and conflicting statements that we are providing.

One way, of course, to demonstrate a commitment is with a continued U.S. forward presence. And I certainly strongly endorse that. I look at this as a low-cost insurance policy that helps guard against future regional instability.

Complementing this program is the IMET program. I would say that all too often this is the first program withheld to demonstrate congressional displeasure with a particular nation's actions. And this, to me, is particularly self-defeating. What better way to influence a nation's future behavior than to substitute or to subject its future military leaders to positive examples and peer pressure? Every time that the Congress denies IMET, you remove an opportunity for the United States to build long-term trust and confidence and to teach by example.

And I would say in this regard that immediate full restoration of IMET to Indonesia is long overdue.

Let me just mention a few things about regional security challenges. China, of course, is the biggest wild card. This has already been talked about. As its military modernizes, the potential to threaten its neighbors increases. This is already adding to regional anxieties.

Many in the United States tend to dismiss the China threat as insignificant, and it probably is from a U.S. military perspective. But the nations in Asia feel that they need to deal with this threat, need to deal with the Chinese.

The question was raised: Are they hedging their bets? The answer is: Perhaps.

Most Asians see little to be gained by deliberately provoking Beijing. They look to the United States to balance but not to antagonize the Chinese. And they certainly do not want to be put in

a position where they have to take sides at this point, even if they are sympathetic and are eager to see the United States continue in the balancing role.

When we look at the South China Sea, I think we need to look beyond just freedom of seas, navigations, and understand the implications of conflict, which would be an economic disruption for all concerned. It is clearly in no one's interest, and particularly China's, to see the use of force in the South China Sea. And the rest of Southeast Asia looks at Chinese behavior in the South China Sea as a litmus test for their future behavior.

The real challenge for the United States is to meld our commitment to democracy and human rights with our overall programs and to have a little bit more patience in dealing with China.

Very briefly, sir, about Japan, I think when the Southeast Asians rank order the various events that would most adversely impact their security, very near the top of their list is a disruption in the U.S.-Japan security alliance. The Clinton-Hashimoto summit went a long way toward assuring them of the stability of that alliance. In some cases, it may have gone too far. We now hear some Asians worrying about the U.S. deputizing Japan to sort of take over a world policeman role. Obviously we need to be very careful, as we encourage the Japanese to take a more expanded role, to also keep regional sensitivities and anxieties in mind.

Leadership transitions, other things, have already been covered. I would say that, in my view, we do not have an arms race underway in Asia today; but one could very easily be fueled, particularly if tensions heat up in the South China Sea or there is lack of understanding or if there is greater uncertainty about the U.S. commitment.

Given all these challenges, I think that it is clear that we will continue to see this area as important and that U.S. leadership will continue to be needed and that it is very much in our national interest to maintain that leadership and to convince people that we will remain committed in Asia.

Thank you.

[The prepared statement of Mr. Cossa appears in the appendix.]

Mr. BEREUTER. Thank you very much, Mr. Cossa.

Thank you, to all of you, for your testimony. I would like to spend about 30 minutes with you, and perhaps some discussion among you, on certain issues; but unfortunately I have only 10 now before the vote; and I think at that point, we will need to adjourn.

I appreciate the Administration's witnesses, but I think, frankly, we learn more from listening to you.

You heard Ambassador Lord's comments about IMET and Secretary Perry has come up and spent a whole meeting with the Congress as a whole just talking about the importance of IMET.

We have a continued controversy with respect to Indonesia over East Timor; and, in the past, we have denied IMET. Now we have E-IMET, a modified form of it.

Could I just poll you on whether you think we ought to continue the IMET program or move it to a normal kind of status, despite the controversy related to East Timor?

If there is anybody that thinks that, you could just express yourself orally here. What would be your view?

Gen. CARNS. Mr. Chairman.

Mr. BEREUTER. General Carns, I will start down on your end, then.

But I do not want a statement.

Gen. CARNS. It will not be a statement.

Mr. BEREUTER. OK. Because I have got important questions.

Gen. CARNS. My view is that, oftentimes, military ties underlie the relationships when they are in tension. And while the State Department and the politicians may have serious problems with an Administration, ties to the military often are the ways we eventually improve things.

Young men and women who have been in the United States and are in the military are our way to reach them. And to me, IMET is sine qua non of the programs that help us link to those militaries and improve democratic principles in those countries.

I am a strong supporter.

Mr. BEREUTER. Thank you very much. I knew you could not resist saying a few words more on that.

What do you think, in a word or two?

Dr. EMMERSON. I would like to move toward full IMET; but, in the interim, so long as the Indonesian military is willing to participate in E-IMET, I would like to see its continuation, with a slight funding increase.

Mr. BEREUTER. Thank you.

Mr. Clad.

Mr. CLAD. I agree with Don. My only addendum to it is that, at a time of political transition, where the military is going to be disproportionately important in Indonesia's future, that we must have those linkages.

Mr. BEREUTER. Mr. Cossa.

Mr. COSSA. We have already lost a great deal of opportunity to influence people in Indonesia, and we have also undercut some of our strongest supporters when they took some very credible stands in Timor. And rather than recognize the progress that was made there and lift the restrictions, we continued them.

I think this was very self-defeating. So we should have full IMET now.

Mr. BEREUTER. Thank you.

Mr. Clad, you were expressing some of the concerns you have about the future issues we are going to see and activities in Indonesia. I do not have enough time to pursue that, but I would like to have you and others tell us, not only what should we do besides become informed, but what kind of actions can we take to influence the factor?

I am afraid I cannot go into it now. I would like to pursue it. If you are willing to spend some time with me or write me a letter or something back and forth so we can prepare for this potential series of difficulties that we may have with respect to what is happening domestically within Indonesia.

Mr. CLAD. Congressman, perhaps among us we can send you a letter.

Mr. BEREUTER. Thank you very much.

I did want to ask a question to all of you related to Dr. Emmerson's comments about attempting, as I understood it, to co-

operate more closely with the regional actors; that is to say, I assume, the countries adjacent to Burma, as opposed to our sort of go-it-alone stance, which is an isolationist stance, an attempt to provide economic pressure and political pressure that way.

What are your reactions to Dr. Emmerson's views?

And I hope I have not mischaracterized them.

Would anybody like to comment on the desirability of taking that approach? Negatively? Positively?

What do you think about our current policy with respect to Burma?

Mr. COSSA. I think that our policy is about right on Burma. I think, in many respects, that Southeast Asians expect us to take a harder line than they do.

Their main problem is when we criticize them and get down on them for not emulating our policy. I think we need to understand that, perhaps, what they are doing works for them, and what we are doing is appropriate for us and that this is an area where we ought to agree to disagree.

But I think we ought to continue the policy.

Mr. BEREUTER. Do you think our position is demanded by principle, Mr. Cossa? Is it effective?

Mr. COSSA. Well, I think it is driven primarily by principle. I think, over the long term, it may be effective. And this is one area where it is probably low cost for us to stand on principles more than in a lot of other areas.

Mr. BEREUTER. And, Dr. Clad, do you have an answer?

Mr. CLAD. Thank you, Congressman. Very quickly.

Many years working out in the region, I am more convinced than ever before that we shoot ourselves in the foot by setting up a situation where we insist on conditionalities and thus remove, rather than add to, our leverage.

I think U.S. leverage is best applied in a proper relationship with an ambassador on the ground. We need to get back on track with the Asians, to *privately* advance the issues, which is far more likely to produce concrete results.

Mr. BEREUTER. Dr. Emmerson, if you have anything that you could send me, in past writings or ideas about how to proceed with your approach, I would very much appreciate that.

Finally, may I ask if all of you would consider and perhaps correspond with me, if you will—in the absence of the time remaining here—your views about whether what seems to be enhanced cooperation between China and Burma is a serious matter for us. Is it a security issue that we should address? Or, in fact, do you not see an enhancement in military ties and political ties emerging between Burma and the PRC?

And perhaps, while you are at it, you can try to indicate, if you know, or give us your opinions about what part narcotics trafficking plays in that relationship.

I think it is necessary for me to adjourn this session, and I am asking you to do a little homework for us, if you do not mind. It would be very helpful to me. I think it can affect our policy here. There is a necessity, I think, to move on the Burma legislation within a month or two; and I would like to make sure that what we do is productive and not counterproductive.

Thank you very much, gentlemen.

The subcommittee is adjourned.

[Whereupon, at 12:50 p.m., the subcommittee was adjourned to reconvene jointly with the Subcommittee on International Economic Policy and Trade at 2 p.m. on June 19, 1996.]

PART 2—U.S. COMMERCIAL INTERESTS IN SOUTHEAST ASIA

WEDNESDAY, JUNE 19, 1996

HOUSE OF REPRESENTATIVES,
COMMITTEE ON INTERNATIONAL RELATIONS,
SUBCOMMITTEE ON INTERNATIONAL ECONOMIC
POLICY AND TRADE, AND
SUBCOMMITTEE ON ASIA AND THE PACIFIC,
Washington, DC

The subcommittee met, pursuant to notice, at 2:30 p.m. in room 2172, Rayburn House Office Building, Washington, DC, Hon. Douglas Bereuter [chairman of the Subcommittee on Asia and the Pacific] presiding.

Mr. BEREUTER. The subcommittee will come to order.

Today's hearing is a joint effort of the Subcommittee on Asia and the Pacific and International Economic Policy and Trade Subcommittee.

My ranking member, Mr. Berman, will be with us soon. He suggested that I proceed, and I am pleased to do that. I apologize for starting the hearing late. As some of you know, we were finishing up, rather late, a full committee hearing on proliferation; and that is the reason we are starting a bit late.

I want to thank my friend and colleague, Chairman Toby Roth, for his leadership on the International Relations Committee and particularly for his efforts to keep the committee focused on the enormous benefits of international trade and the benefits it brings, specifically, to the American people. It is a message that is all too often neglected.

Repeating that important message is one of the purposes of today's joint hearing. Asia is a continent full of opportunities as well as challenges. Too often in Congress, I think we dwell on the problems, the threats, and misfortunes. While this orientation is necessary and prudent, it is useful to focus some attention on the good news also.

One of the major advances in the world today is the stunning economic progress of the Asia Pacific region, especially the dynamic countries of Southeast Asia. American companies, which have traditionally been focused on the domestic U.S. markets to a large degree, have, in the last years, awakened to tremendous opportunities for trade and investment in Southeast Asia, trade and investment which creates thousands of high-paying American jobs every year.

The Asia Pacific region has surpassed Europe as the largest regional trading partner of the United States, both in terms of Amer-

ican imports and exports. In 1995, our trade with the Pacific Rim countries reached \$490 billion, 80 percent more than our trade with Western Europe.

While these overall trade statistics are impressive, it is also essential to understand that they represent huge imbalances. Our 1995 trade deficit with the Asia Pacific region amounted to \$112 billion, representing 70 percent of our global trade deficit last year.

Within Asia, the Association of Southeast Asian Nations, or ASEAN, has become a particularly important trading partner for the United States. The Department of Commerce has recently identified this regional grouping as one of the world's ten big emerging markets. Singapore, with its population of only three million, buys, for example, more American goods than the total U.S. exports to Russia, India, and Egypt combined. Malaysia, Thailand, the Philippines, and Indonesia all buy more from us than any of these three important countries.

Our overall trade deficits with the ASEAN countries, however, are comparably large. One of our major topics of discussion today will be how to remove impediments and foreign barriers to trade with these countries to bring these impressive trade statistics into better balance.

The infrastructure needs of the ASEAN countries promise enormous economic opportunities for U.S. companies. Indonesia, for example, plans to spend \$113 billion in the area of energy, telecommunications, and transportation. Thailand's infrastructure plans the next 5 years to surpass \$50 billion; Malaysia's \$25 billion; and the Philippine's, \$20 billion.

Some of our witnesses today are experts in these particular sectors, and we look forward to them advising us on how we can do even better in promoting U.S. sales to Southeast Asia and garnering our share of these infrastructure projects.

Let me close with a personal observation from my 18 months as the chairman of the Subcommittee on Asia and the Pacific. My experience, particularly when dealing with the Asia Pacific region, personal relationships count a great deal. Our corporate witnesses today will, I believe, confirm this view. If we want to expand our commercial, political, and security ties with this region, we must treat these countries like the important friends and allies that they are.

Sanctions and lecturing do not make for solid relationships. In short, we cannot poke our fingers in the country's eye and then turn around asking for a contract or military access agreements.

Now, it is my distinct pleasure to introduce the members of the panel, our witnesses.

First we will hear from Ambassador Paul Wolfowitz, dean of Johns Hopkins School of Advanced International Studies.

Ambassador Wolfowitz has extensive experience in the Department of State and Defense, including service as Undersecretary of Defense for Policy, Assistant Secretary of State for East Asia and Pacific Affairs and U.S. ambassador to Indonesia.

This is Ambassador Wolfowitz' first opportunity to testify before this subcommittee in his new capacity, although he was prepared to testify at an earlier hearing that unfortunately we had to cancel at the last minute. I can think of few better witnesses to set the

scene for this hearing by outlining U.S. political and economic relations with the crucial Southeast Asia region than the ambassador.

Our second witness is Mr. George David, chairman of the U.S.-ASEAN Business Council and President and CEO of United Technologies Corporation.

The U.S.-ASEAN Council has testified several times before this subcommittee on the excellent work they do promoting U.S. exports in Southeast Asia.

Mr. David joined UT's subsidiary, Otis Elevator, in 1975 and worked his way up to the top corporate position in 1994.

I am sure he will tell us today how Otis Elevator landed what I am told is the largest single elevator contract ever, the Petronas Twin Towers project in Malaysia.

We even have a photo of it here.

Next, Dr. Marcus Noland, senior fellow at the Institute for International Economics will testify.

Dr. Noland has extensive experience teaching and studying economics throughout Asia. In addition, he has authored and co-authored with Fred Bergsten several major works on Asia's economy, including: "Pacific Basin Developing Countries: Prospects for the future" and "Pacific Dynamism and the International Economic System."

We hope to learn a great deal from Dr. Noland today, in the short time available, about the economic dynamism of Southeast Asia.

Our final witness is Mr. Jim Adam, chief executive officer, Black and Veatch Corporation.

Black and Veatch, currently the eighth largest contractor in the United States, is a leading engineering, procurement, and construction firm in the fields of energy, environment, and manufacturing commercial and industrial buildings.

In recognition of his extensive background, particular expertise in energy, Mr. Adam was just named chairman of the U.S. Energy Association.

I am anxious to hear from our witnesses, but I turn now to any ranking member for any statements they might have.

Mr. Gejdenson, the ranking member of the International Trade and Economic Policy Subcommittee.

Mr. GEJDENSON. Thank you, Mr. Chairman. Let me commend you for holding this hearing.

One of the things that I think is critical, as we engage these markets that obviously have tremendous opportunities and also some pitfalls along the way, is it is most apparent to me in countries like China and India, but in each one of these other markets, it is equally as clear we have a competitive position that is affected by a number of things, including labor rates and environmental standards.

And the discussions we have in this country on environmental standards, you look at China in the next decade, it is expected they will build sufficient fossil fuel plants to erase all the advances we have made in clean air in this country.

What will prevent continued aggravation of our trade deficit with countries like China and soon, I believe, India, so that it is not simply a downward pressure on all our countries that, in a sense, we

all end up seeking the bottom on wage rates as India and China operate for two cents compared to an American dollar that a worker would get for the same amount of work?

It does not create the commensurate demand over the long haul here. And the decades it may take for them to see the kinds of changes in their societies that would lead to a more democratic distribution of wealth and environmental laws not like ours, but at least heading in the same direction.

I mean, how do we—those are two issues, it seems to me, we have to grapple with or we will continuously be at some disadvantage globally, both as the cost of the environment, the damage to the environment, and in the labor rates.

So while all of us—and I commend the chairman and I think virtually every member of this panel—have fought for Eximbank's role in assisting our access to these markets—although there has been some effort to do away with the Commerce Department—most of the people here have understood how vital that role has been.

We would also like to hear from you folks as to what role you think government needs to play? Or do we just need to get out of the way?

Thank you.

Mr. BEREUTER. Thank you, Mr. Gejdenson.

Mr. Berman, do you have a statement you would like to make or submit?

Mr. BERMAN. Yes, I have a statement I would like to submit.

Mr. BEREUTER. Without objection.

[The prepared statement of Mr. Berman appears in the appendix.]

Mr. BERMAN. And I would just like to reiterate Mr. Gejdenson's point: I think it would be interesting to hear from you from an academic, as well as from a business perspective, whether or not you see any value in U.S. and multilateral institutions in terms of our commercial interests in Southeast Asia, both in terms of their ability to grow and then the extent to which American contacts and relationships are favored as a result of that work, both in the economic assistance and trade promotion areas, Commerce Department, multilateral banks, things like that.

So, thank you for holding the hearing, Mr. Chairman.

Mr. BEREUTER. Thank you.

Are there any other members who have a statement?

Mrs. Meyers, the gentlelady from Kansas.

Mrs. MEYERS. Mr. Chairman, I look forward to all of the members of this distinguished panel, but most particularly Mr. Adam who is an important corporate citizen of the Kansas City area and is located in my district and his firm, of course, is also a very important international firm. I think they have offices in 80 or 90 countries. And I welcome him particularly.

Mr. BEREUTER. Thank you.

Gentlemen, we would like to proceed. I would appreciate it if you can restrict your comments or summarize them in any fashion possible, since I think we will be voting, unfortunately, about every 30 minutes on the floor.

First we will call upon Ambassador Wolfowitz. Thank you for coming. We look forward to your statement.

**STATEMENT OF HON. PAUL WOLFOWITZ, DEAN—SCHOOL OF
ADVANCED INTERNATIONAL STUDIES, JOHNS HOPKINS UNI-
VERSITY**

Mr. WOLFOWITZ. Mr. Chairman, it is a pleasure to be here; and it is a pleasure to testify before this committee and this Congress.

I recall having the pleasure of testifying before you many times on the same subcommittee, I think it was 10 years ago, when I was Assistant Secretary of State and you were one of the most interested Members of Congress in the region; and a lot has happened since then in the region, most of it positive. And I am pleased to note that you are now in the majority and chairman of the committee. So it is a pleasure to be here.

It is a privilege to address this important committee on the subject of U.S. relations with Southeast Asia. You have asked me to present, from both the political and economic perspectives, American interests in the region; and I will try to do that briefly.

I particularly welcome the opportunity to address that subject, and I salute this committee for the wisdom you have shown in selecting the area of Southeast Asia because I believe it is safe to say that there is no region of the world that is as important for U.S. interests about which Americans, even relatively well-informed Americans, are so frequently ignorant.

What we do know about Southeast Asia is frequently a residue of the war in Vietnam, which was unquestionably a terrible experience for us as a country and for many of us as individuals. That experience, no doubt, leaves in many people's minds the conclusion that this is a part of the world the United States might better avoid.

Perhaps it also leaves with some a feeling that our involvement there was the consequence of an exaggerated view of the importance of Southeast Asia.

I do not intend to reopen any of the old debates about our involvement in the Vietnam War, but I do want to emphasize this afternoon how profoundly the region has changed in the two decades since our military forces withdrew.

Two changes in particular are important to emphasize.

First, Southeast Asia is no longer a vale of troubles and tribulations. To the contrary, it is a region of enormous opportunity. It has become almost a cliché to observe that the dominoes which we once feared would fall if the Communists succeeded in conquering Indochina, have become dynamos of economic growth, rapidly entering the ranks of newly industrialized nations, particularly because that economic growth has been the product of relatively open, market-oriented economic policies. The opportunities for foreign trade and investment have grown along with the economies of the region, indeed, perhaps a bit faster.

For example, during the last 10 years, the 5 original members of ASEAN—an abbreviation that is frequently used to refer to the Association of Southeast Asian Nations—their economies grew at a combined average rate of roughly 7 percent, an extraordinary record by world standards. Yet American exports to the region have been growing at an even faster rate; for example, an astonishing 90 percent growth in the 5 years from 1991 to 1995, an average of 14 percent per year.

The second difference from our time of troubles 20 years ago is that the strategic significance of Southeast Asia is changing and growing because the whole Asia Pacific region is changing.

In the past, Southeast Asia was important because of its strategic resources. Some might even argue that Japan went to war in 1941 in order to secure the oil and rubber supplies of the region. But that is of relatively minor significance today. What is becoming increasingly important is that Southeast Asia is a significant part of the Asia Pacific region as a whole, a region that is rapidly gaining in strategic importance because of its enormous economic growth.

Perhaps no part of that overall regional picture is as important as China, which is widely—and I believe accurately—predicted to emerge as a true superpower sometime early in the next century.

There is probably no greater challenge for the international system and no task that is more critical to peace and stability of this vast region and of the whole world, than accommodating the emergence of this newly powerful China in a peaceful manner.

In that task, Southeast Asia assumes a new and special political importance because the region borders directly on China; and, indeed, many of the nations of Southeast Asia have disputes with China over the maritime boundaries of the region.

Whether China can develop peaceful relations with Southeast Asia will do much to determine whether China can develop peaceful relations with the rest of the world.

In the past, Southeast Asia has been an important source of scarce products and important because of the sea lanes that pass through it. In the 16th century, it was the only source of cloves and nutmeg, hence the term "Spice Islands" that referred to Indonesia. In the mid 20th century, as I noted, countries fought over its oil resources.

Throughout, the sea lanes of Southeast Asia have been critical to commerce, and they will continue to be the route through which almost all of Japan's energy supplies and an increasing share of China's flow from the Middle East.

However, increasingly, Southeast Asia will be most important because of its very large numbers of highly productive people, who are turning the economies of the region into some of the largest in the world.

When I was the U.S. ambassador to Indonesia, I was continually surprised at how many Americans had barely even heard of that large and important country.

Even among well-informed people, it frequently came as a surprise to learn that Indonesia is now, with the demise of the Soviet Union, the fourth largest country in the world. With a population of 190 million people, 90 percent of them are Moslems, making it the largest Moslem population of any country in the world, and almost as many Moslems as the entire Arab world put together. It is a substantially larger population than either Japan or Germany.

Only if you look at Indonesia alongside its giant neighbors, China and India, could you think of Indonesia as a small country. Perhaps Indonesia's size, in turn, obscures the fact that several other countries of Southeast Asia are large by European or world standards. Vietnam, with a population of 74 million, the Philippines with

a population of 69 million, or Thailand with a population of 60 million would rank with the great powers of Europe.

Yet large populations, by themselves, do not make countries important if those people are poor and starving. Like China, what makes the countries of Southeast Asia important today is that these large populations are rapidly becoming increasingly productive.

If those growth rates continue, sometime in the next few decades their productivity will begin to approach that of the advanced industrial economies, as Singapore and Hong Kong have already done, and as Taiwan and South Korea are on the verge of doing.

The combined population of the seven member countries of ASEAN, which now includes Vietnam, is nearly 420 million.

If—or perhaps I should say when—those countries achieve a per capita productivity of \$10,000, roughly the level of South Korea today, they will have a combined gross domestic product of \$4.2 trillion. We are still many years away from that, but it is important to keep in mind where we seem to be heading, because it is having effects even today.

Against that background, let me try to summarize briefly what I view as the principal American interests in Southeast Asia.

First, our economic interests are large and growing. U.S. exports to the seven members of ASEAN were nearly \$40 billion last year, and our imports from the region were over \$60 billion.

We have a great commercial interest in the continuation of this extraordinary economic growth, and we also have an interest in the increasing adoption of open trade and commercial practices by these countries.

Those principles have been proven to be the basis of the most rapid gains in economic productivity for the countries that adopt them. But they also are the best assurance that American producers will be able to compete in those markets on equal terms.

Second, the region is of great strategic importance; but that importance is best understood not in terms of resources or shipping lanes, but rather in the following way: A Southeast Asia that is secure and stable and growing economically is a Southeast Asia that is likely to be at peace with its big and increasingly important neighbor to the north, China.

Alternatively, if Southeast Asia is once again beset by the international wars and internal conflicts that were endemic in the 1950's and 1960's, a newly powerful China might be tempted or might even feel compelled to intervene militarily in the affairs of the region.

Thus, the United States has a major interest in the continued stability of the region and in seeing the Southeast Asia countries achieve what they themselves like to call regional resilience and national resilience, the creation of peaceful relations within and between countries based on economic strengths and successful dispute resolution.

And, finally, the United States has an interest in seeing that this large segment of humanity achieves the levels of individual prosperity and freedom that we and other citizens of advanced industrial countries enjoy today.

That is not simply a humanitarian concern; although, no one should minimize the humanitarian benefits that come from lifting millions of people out of poverty as the Southeast Asia nations are doing today.

The success of the Southeast Asia countries can have wider effects in pointing the way to other developing countries struggling to escape from poverty and economic stagnation.

Perhaps because I spent 3 years in Indonesia as the American ambassador, I am particularly impressed by the potential influence that Indonesia's economic success, along with the even more impressive record that Malaysia, a much smaller economy, might have on the rest of the Moslem world.

But I think more broadly that the countries of Southeast Asia are increasingly influential examples of how to achieve economic growth and that the whole world will be a better place if that example can be more widely followed.

If I might just, in concluding, Mr. Chairman, mention that I think in pursuing those interests we have enormous advantages as a country; and I would just like to briefly mention three.

First, economically, we have the largest market and the best technology in the world. And everyone wants access to both. I think that access gives us enormous leverage; although, I also believe we have to be careful about how heavy-handed we are in our exercise of leverage.

I had the experience, for example, when I was ambassador, I was tasked by my bosses—including, particularly Secretary Schultz and Reagan to get the Indonesians to pass a copyright law, an issue not unlike the one we are confronting with China today. And I began by warning, in private, but also a bit in public, that if this did not happen, we would be exposed to 301 sanctions against Indonesia.

One of the ministers said to me: Look, we have got your message; but frankly it will be a lot easier to get this copyright law passed if we can persuade our people that it is in Indonesia's interest. And the more you talk about punishing us, the more it sounds as though we are simply doing this at your behest.

I said, fine, as long as it is clear where we end up, I am happy to let you accomplish it the best way you can.

And to their enormous credit, they got a copyright law passed. And they did persuade Indonesians that if Indonesia was going to be a modern country with advanced technology, it had to have respect for intellectual property.

It was a lot better than trying to beat them over the head with a club.

Our second great advantage is our military strength, not just that it's large, but that people trust us in a way that they trust almost no one else.

I believe we are going to be critical to the stability and balance of that region for a long time into the future. The last thing any Southeast Asians that I know of would like to see is to have their region of the world become a military region of military competition between China and Japan. And they view American influence as very, very important to preventing that from happening.

They also, I believe, view it as important to keep them from wasting resources on their own military that ought to go to economic development.

If I might mention one other experience I had as ambassador, I woke up one morning and read the newspapers and there, disturbed, to see the commander of the Indonesian armed forces said there is no Soviet threat in Southeast Asia. This was still the cold war. The Soviets were still in Cam Rahn Bay. This is not exactly, if I might put it, the American line.

And he was a good friend. I went to him, I said: "What are you talking about?" He said: "Well, there is no Soviet threat as long as you Americans are here to deal with it." I said: "Well, that is a very different statement. It would be nice if you had said it."

He said: "Look, if I talk about a Soviet military threat in this region, my boys—which was the way he would refer to these 50-year-old generals who worked for him—my boys could bankrupt this country trying to deal with it and at the end of the day, we would not succeed."

And it is true, if you look at Indonesia's military budget. It is remarkable, particularly given the dominant influence of the military in the country, that they have kept their military expenditures so comparatively low and have successfully targeted money at economic development.

Our umbrella helps to provide that atmosphere. And I think it is in our interest.

And, finally, our third advantage—and I will conclude here—I think it is important to emphasize that there is enormous admiration throughout the region, from my experience, and I believe even if Vietnam, where I cannot say it from personal experience, I think there is enormous admiration for this country and for American achievements.

I think many people in the region—I might even say the majority—aspire to be more like us, not just economically but politically as well. I hasten to add, they also would like to think that we might become a bit more like them in certain respects; and I think we should leave that open to some consideration.

But no one wants to see the United States playing the role of international nanny, lecturing everyone else about how to handle their affairs as though we knew exactly the right answers to everything.

They are willing to listen to us, even on sensitive issues of human rights; but I think it is important that when we bring up those issues, we should keep in mind three things: We should keep in mind that it is much easier to practice some of the liberties and freedoms that we enjoy in an advanced economy than in countries that are still struggling with basic problems of economic development and nation building.

Second, we need to keep in mind that we are talking to people that come from ancient cultures with enormous cultural and political achievements of their own who want and deserve respect.

And, finally, I do not believe we get as far if we act as though we are going to punish them whenever they do not do what we ask them to do.

Believe it or not, I think sometimes rhetoric, the force of example, the force of quiet persuasion is much more effective than the constant resort to sticks, which do not work.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Wolfowitz appears in the appendix.]

Mr. BEREUTER. Ambassador Wolfowitz, thank you very much for your statement; and I will find plenty of uses for your third summary conclusion.

Now we would like to hear from Mr. George David, chairman U.S.-ASEAN Business Council, President and CEO of United Technologies Corporation.

Your entire statement will be made a part of the record, Mr. David. You may proceed as you wish.

STATEMENT OF MR. GEORGE DAVID, CHAIRMAN, U.S.-ASEAN BUSINESS COUNCIL; PRESIDENT AND CHIEF EXECUTIVE OFFICER, UNITED TECHNOLOGIES CORPORATION

Mr. DAVID. Mr. Chairman, ranking member Berman, and members of the subcommittees, it is an honor to share with you today some thoughts about engagement with the economies of the world and especially with those of the ASEAN region.

I commend first this committee and you, Mr. Chairman, for your active support for American companies internationally, specifically through your advocacy for Eximbank.

Chairman Roth and Representative Gejdenson also especially merit recognition for their fine efforts.

And I might just mention in passing that we are proud, indeed, to operate the largest and finest aircraft engine factory in the entire world in the district of Congressman Gejdenson.

It is a cliché to talk about globalization and the increasing interdependence of nations. These words are so commonplace that they no longer convey the power of events taking place around us and the truly extraordinary opportunities that these present to our nation and to our world.

In the past 50 years, the world's economy has grown from \$2 trillion in 1946 to about \$28 trillion last year. But contrast this to what is to come in our future, in the next 20 years alone, the world's economies will expand from \$28 trillion in total to \$108 trillion.

That is equal, by the way, to adding the equivalent of today's entire American economy to the world's total every 2 years for the next 20.

Now, most of this new output will arise outside of our own country. Our economy will grow, but others will grow faster. And the result of that will be that our share of the world total economy will drop from today's 25 percent to about 17 percent by the year 2016. But our influence and traditional world leadership, both economically and politically, need not and will not lessen correspondingly.

We know that a little over a quarter of the world's economy all together is tied up in trade, that is, goods which are made in one country for consumption in another.

The world's economies benefit mightily from trade, and we do also, and perhaps even more so for us as Americans because of our leadership in the highest technology products and exports.

Now, less well emphasized is that another one-quarter of total world economic output is a result of foreign investment. For one example, sales of subsidiaries and affiliates of American companies are equal to about 10 percent of the combined gross domestic product in the European theater. They also exceed U.S. exports to Europe by a factor of about seven times.

For another example, subsidiaries and affiliate sales—this is, again, affiliates and subsidiaries of American companies in Japan—account for about 4 percent of Japan's GNP; and they exceed, by the way, materially, Japanese's exports to the United States, all the heat which is generated by that latter statistic notwithstanding.

Now we care about these trade and investment facts for two reasons. First, the wealth generation around the world will occur either with us or without us; but as participants in that wealth generation, we will share in the benefits of it and thereby assure our ability to provide incomes and employment security for all Americans.

And, second, by involvement in these economies, we persuade the peoples of the world by example and by leadership that our systems of government and business, our systems based on constitutional protections, free elections laws, and market economies, work, and they work very, very well.

I can give these committees no more persuasive example than our shop steward in one of our plants in China. Ten years ago when I first met him or her—and whatever is not important—this person was a ranking Communist party member in Shanghai and Communist party leader. That same person is now so firmly committed as an individual to free markets and free people. And I saw that myself with my very own eyes over a 10-year period. And all of that has been based—that is that change of viewpoint—it is changed on persuasion, by facts, and by personal observation, and the facts that American principles work and they work darn well.

This is a great opportunity, as an aside for me, to take a moment and thank you, Mr. Chairman, for your leadership role in the ongoing debates over Most Favored Nation trading status for China. This is not the stated topic today, but it is crucial to U.S. interests; and we deeply appreciate your support.

I would also take just a moment and thank you for your nice promotional comment for Otis Elevators in the two tallest buildings in the world. The reference is to Petronas Towers. Mr. Heffern, I believe you have a photograph you might wish to hold up for the members of the committee.

These buildings are, again, the two tallest buildings in the entire world. They will be completed later this year, and they have magnificent Otis Elevators built in Bloomington, Indiana. And I think they could not exemplify better the importance of involvement with these emerging nations.

So my message today is very straightforward: No fortress America, no fortress Europe, no walls erected with the misguided beliefs that they will keep the wealth in and the poverty out; exactly to

the contrary, America benefits mightily from engagement and decisive engagement with the peoples of the world.

Nowhere will these trends and requirements be more evident than in Asia and especially in the ASEAN nations. Just the latter's populations, that is the seven ASEAN nations, number today about a half billion people. That population is twice our own. And the outputs of these seven nations will reach a trillion dollars annually by the close of the century.

The slowest growing of the ASEAN seven last year, the Philippines, grew at twice our rate and the newest, Vietnam, at a full 10 percent.

Now, I expect you can detect some passion in these remarks and I believe also some experience as well. In passing, I might note that 55 percent of our company's \$23 billion in sales arise in markets outside the United States. We do business in all countries of the world save only seven. We have employees in 1900 cities of the world, which I note in passing, is six times more cities overseas than our own U.S. Department of State. And this global presence helps us decisively with exports and with job creation back home. And it is high-tech job creation absolutely. Our exports last year for UTC were \$3.3 billion. That level ranks us among the top 10 companies nationally on this measure. And the jobs created—they are fundamentally aerospace jobs—by these UTC exports are absolutely high-tech, high-wage, high-benefit jobs, great, great jobs, by any measure.

I believe our government has two pivotal roles in international commerce. First is our traditional advocacy and leadership in developing and maintaining free trade and open markets across the world. This means unqualified support for and, as appropriate, funding for organizations like WTO, OECD, World Bank, the IMF, and so on.

Second is ensuring level playing fields in trade and investment across the world, level playing fields, that is, for our own American companies as they compete. And we do this with our Commerce Department, USTR, Eximbank, OPIC, TDA, and others.

Mr. Chairman, I know these institutions personally and well. And as a customer, I am here to tell you that they are great, highly effective, and much, much needed.

Thank you for the privilege of making these comments, and I will try a little later to answer any questions that you may have.

[The prepared statement of Mr. David appears in the appendix.]

Mr. BEREUTER. Thank you very much, Mr. David. And thank you for your kind remarks.

The gentleman from Connecticut has to go, and he would ask for an opportunity to make a comment.

Mr. GEJDENSON. I just want to thank you for your comments and also to thank your entire staff. Your comment about your presence in cities around the world, several years ago, when we were setting up a trade mission to Taiwan, your staff was as helpful as our government was and had maybe more contacts in putting that together and benefited lots of other companies in Connecticut, not associated, necessarily, with your industries, from people who cut timber and did lots of other things.

So I just want to thank you for your efforts and the benefit that you provide to the rest of the State.

Thank you very much.

Mr. DAVID. Thank you.

Mr. BEREUTER. Thank you, Mr. Gejdenson.

We have a vote on, but I think we ought to be able to hear from one more witness before we have to recess for that vote.

So I would like to call upon Dr. Marcus Noland, senior fellow, Institute for International Economics, Johns Hopkins University.

Dr. Noland, you may proceed.

STATEMENT OF DR. MARCUS NOLAND, SENIOR FELLOW, INSTITUTE FOR INTERNATIONAL ECONOMICS, JOHNS HOPKINS UNIVERSITY

Dr. NOLAND. Mr. Chairman, it is an honor to be here and address these subcommittees. In my remarks this afternoon, I will try to make three basic points.

The first of these is that the countries in Southeast Asia are likely to continue to increase their importance in the world economy and in U.S. trade.

Second, although the relative importance of these countries will be increasing from a U.S. perspective, from their perspective, the relative importance of the United States will be declining.

That leads me to my third point, which is that, although, the United States has met some success in the past by pressing the issues of concern to ourselves on them unilaterally, because of the relative decline of our importance to these economies in the future, it may be the case that the United States will increasingly need to act through multilateral institutions to achieve our national interests.

Over the past three decades, the countries of Southeast Asia have more than tripled their share of world trade and world income. This process has been driven essentially by the transformation of these economies from largely traditional agrarian economies to modern economies.

As the pool of labor in the traditional rural sector dries up and as these countries come closer and closer to the technological edge of the world economy, the growth process will inevitably slow. But for these countries that probably has another couple of decades to run.

So for the foreseeable future, these countries, barring some major calamity, will be growing faster than the rest of the world and increasing their share of the world economy.

U.S. trade with Southeast Asia, as was mentioned by Ambassador Wolfowitz, was around \$100 billion last year, and is growing rapidly.

As these countries increase their share of the world economy, U.S. trade will be increasingly oriented toward them. Already these countries account for more trade with the United States than does Latin America. And over the next decade or so, their share of U.S. trade may rise to something like 10 percent, at which point they would be bigger than Latin America, roughly equivalent to China, and about half as much as the European Community.

As was mentioned by Mr. David, our economic relationship with these countries is not limited solely to trade. The United States firms have about \$60 billion invested in the countries of Southeast Asia and earned about \$6 billion in profits from these investments last year.

Most of the production of these U.S. affiliates in Southeast Asia is sold either in the local market or is sold in third-country markets. Only about 20 percent of that production is re-exported back to the United States. And on net, our investments in these economies clearly increase U.S. employment and U.S. wages.

So the U.S. economic relationship with Southeast Asia is robust. However, their economic relations among themselves and with other countries around the world are robust as well.

Intra-regional trade with Asia has been growing very rapidly. And because of changes in the world economy over the last 10 years or so, new investors in the region, such as Korea and Taiwan, have emerged.

As a result, the relative importance of the United States in these economies both as a trader and as an investor is declining. And what we will see in the future is a situation in which the United States is an important economic actor in the region but by no means is a predominant force in the region.

The trend and trade policy throughout the region has been toward greater openness. The process started in Singapore back in the 1970's, moved through the other ASEAN countries, and most recently has been taken up by Vietnam since 1989.

The reasons that these countries have opened up their economies have largely been for their own domestic reasons, the desire to have more openness, greater efficiency. It has not, for the most part, been a function of pressure from foreign countries.

The United States has had trade disputes with these countries in the past and will continue to have trade disputes with them in the future. Indeed, as they become richer and those governments have access to a greater amount of resources, it is likely that their own industrial promotion policies will be an increasing source of friction with the United States.

As Ambassador Wolfowitz mentioned, in the past, the United States policy in the region has been marked by an emphasis on bilateral and, oftentimes, public diplomacy.

This is understandable because of the fundamental asymmetry in terms of size and power between the United States and these economies. And this tactic has allowed the United States to set the agenda. However, as Ambassador Wolfowitz mentioned, our public diplomacy has often given these negotiations a kind of zero sum air. And in these smaller countries in Southeast Asia, this is perceived as bullying by the United States and has created, I think, resentments throughout the region.

As I argued earlier, the fact that our relative importance in the region is declining, means that we will probably be pushed, over the next decade or so, to use multilateral solutions more to try to achieve our national interest.

There are four basic multilateral institutions that shape our trade relations with Southeast Asia.

The first is the World Trade Organization, the WTO—and please excuse me, but now that we are into trade policy, we are into a world where everything has an acronym, usually four letters.

The second organization is the North American Free Trade Agreement, or NAFTA.

Third, the ASEAN Free Trade Agreement, or AFTA.

And, finally, there is the Asia Pacific Economic Cooperation forum or APEC.

The WTO should help us resolve some of our disputes with Southeast Asia. The Southeast Asian countries, as part of the Uruguay Round Agreement, have committed to reduce their trade barriers to reduce trade-related investments performance requirements that U.S. firms have faced, provide for better intellectual property rights protection, and will circumscribe the opportunities for subsidy of exports which could be important as these countries increasingly pursue industrial policies.

And, finally, and importantly, the Uruguay Round agreement provides for dispute settlement.

Now, the Southeast Asians are increasingly active participants in this system. Most of them were members of the Cairns Group of agricultural exporters which allied with the United States in the Uruguay Round to liberalize agricultural trade. And, indeed, the first case brought to the WTO for dispute settlement was a case between Singapore and Malaysia. So these countries have demonstrated their willingness to use the WTO as a forum for settling disputes.

The point I would like to make is, these countries are potentially our allies in strengthening the world trade system and the WTO.

In terms the regional organizations—

Mr. BEREUTER. Dr. Noland, I think if you will hold your place, we better go vote or we will miss it.

Dr. NOLAND. OK.

Mr. BEREUTER. So I will recess the committee for about 12 minutes.

[Recess.]

Mr. BEREUTER. The subcommittee will come to order.

Dr. Noland, sorry to have interrupted you. If you could complete your statement in about 2 to 3 minutes, it would be appreciated.

Dr. NOLAND. Thank you very much, Mr. Chairman.

I should clarify one thing for the record that was raised by a number of people with me during the break, which is, while I have affiliations with both the IIE and Johns Hopkins University, those two affiliations are unrelated. IIE has not become a subsidiary of Johns Hopkins or vice versa.

At the time of the break, I was arguing that while the countries of Southeast Asia are increasingly important in the U.S. economy, our importance to them is declining; and as a consequence, we will need to focus more on multilateral organizations. And I discussed the WTO, which I think is the most prominent of these organizations.

There are also some regional organizations. One is NAFTA, which we normally do not think about as affecting Southeast Asians; but they think about it as affecting them in terms of diverting trade and investment from them to Mexico.

The other, and probably of more interest to you, is AFTA, the ASEAN Free Trade Agreement. This is a free trade agreement the ASEAN countries have reached. Research suggests it would have a very modest, even minor, positive benefit to the United States if it were actually implemented; but there is skepticism as to whether the ASEAN countries ultimately will be able to pull this off.

Finally, there is APEC. And the ASEAN countries, with the exception of Malaysia, have generally been very supportive of APEC and its progress.

So just to conclude, the Southeast Asian countries will probably continue to grow in importance in the world economy and to the United States. However, because of the more rapid growth of those countries and the development of regional trade and investment ties within Asia, our relative position will be declining.

As a consequence, strategies of achieving our goals based on unilateral action will probably decline in efficacy; and the United States will need to make greater use of organizations such as the WTO and APEC to achieve our national aims.

Thank you very much.

[The prepared statement of Dr. Noland appears in the appendix.]

Mr. BEREUTER. Thank you very much, Dr. Noland.

And finally we will hear from Mr. James Adam, chief executive officer of Black and Veatch Corporation.

Mr. Adam, welcome. You may proceed as you wish.

STATEMENT OF MR. JIM ADAM, CHIEF EXECUTIVE OFFICER, BLACK AND VEATCH CORPORATION

Mr. ADAM. Mr. Bereuter, members of the committee, in particular, Mrs. Meyers, I am delighted to be here; and thank you for inviting me to make a contribution.

Black and Veatch is a major exporter of environmental and water infrastructure engineering and construction services. We are also the world's leading provider of engineering services for the power generation industry. In fact, last year, we provided 45 percent of the detailed engineering services globally for that industry.

Nearly 70 percent of our 1995 sales in the power sector resulted from exports, primarily to emerging markets in Southeast Asia and elsewhere. Southeast Asia is an economic powerhouse which includes some of the fastest growing economies in the world. The reason is straightforward: governments there, more so than in most other regions of the globe, have taken the American experience to heart. They are crafting societies in which individual initiative and hard work can be rewarded. Their free markets reforms have produced prosperity.

Every country in this region is in some state of deregulation in the power sector, which is beginning to open up opportunities for independent power producers. These countries have massive needs for foreign investments, which will continue to be attracted to them as long as they continue to open their power sectors to market forces and permit reasonable profits to be made.

Continued high rates of economic growth and power demand should generate major opportunities for U.S. companies over the next decade. However, opportunities must be translated into real projects. In practice, U.S. firms face trade barriers at home and

abroad. Homegrown barriers are the most frustrating, including efforts to utilize economic sanctions to promote U.S. foreign policy goals.

A major issue we must deal with is that while multilateral sanctions have proven effective in some cases, the unilateral application of economic sanctions is far more likely to harm U.S. commercial interests, jeopardize high-valued export jobs and to prove counter-productive on policy grounds as well.

A second issue is the maldistribution of U.S. officials from the State and Commerce Departments in U.S. embassies, a particular problem in Southeast Asia. The U.S. exports more to Malaysia now than it does to Italy. Yet the U.S. Embassy in Rome has five times the commercial officials in Malaysia.

A third issue involves the worth of U.S. export promotion programs like the Trade and Development Agency and Eximbank. There is a direct relationship between the scope of export promotion programs and the creation of high-value exports jobs. Competition internationally for these jobs is intense, which is why 29 other countries aggressively implement their export credit agency, or ECA programs.

These ECA's create market imperfections and distortions by aggressively supporting their country's firms, financing about \$10 billion in projects annually, plus another \$80 billion in direct exports.

Black and Veatch faces vigorous competitors, backed by these deep-pocket ECA's supplying financing on most of our project bids.

Eximbank financing sometimes makes the difference between our being able to compete and being left out. For example in Indonesia, our client told us that to compete in the Paiton Two project, we must bring a strong finance package with our bid. Eximbank responded to our need, enabling us to close a deal on March 24, 1996, to supply \$100 million in engineering services as part of the winning consortium. In addition to the jobs maintained in Black and Veatch, Combustion Engineering, and a number of subcontractors, were also supported by Eximbank's loan.

If we cannot utilize Eximbank and TDA resources to counter the effects of these foreign ECA's, the basic rules affecting the operation of U.S. companies will change. Engineering and construction companies will be forced to make a difficult choice: Enter into partnerships with foreign ECA's, developers, and trading companies, or go out of the business.

Equipment supply and related jobs will follow the financing abroad. Small- and medium-sized suppliers here will suffer grievously along with large equipment suppliers like GE and Westinghouse.

Moreover, as market penetration by U.S. firms dwindles, the development of stable markets which typically follow initial export orders and projects will dwindle as well.

No doubt changes could be made to improve the operation of U.S. export finance programs, but this issue is marginal compared to the budget risks confronting Eximbank and TDA and Congress. TDA, for example, must stretch \$40 million across the world while JICA, the Japanese Technical Assistance Agency, has a \$308-million budget.

TDA is a small, but effective, U.S. agency which helps us to conduct studies and win contracts by supplying the pivotal funding.

In Malaysia, selection of Black and Veatch for a 500-kv transmission line project hinged on a \$100,000 grant from TDA to provide training for the client's managers.

And I might add that we also obtained follow-on work for two power plants once we developed the relationship with the Malaysian utility, and we have a partnering agreement. So that single grant led to a tremendous amount of business not only for us but for U.S. suppliers who also export on those projects.

But some congressional critics favor continued budget reductions of TDA. The U.S. export community strongly supports export promotion programs for two major reasons:

First, critics fail to evaluate the credit side of the export promotional ledger. These programs dramatically leverage government funds or taxes. Projects carried out by Black and Veatch with TDA support, for example, have returned \$73 in exports for every TDA dollar received. Federal income taxes on the wage portion of these exports alone will average around \$7 per taxpayer for every \$1 of TDA grant spent, actually a money maker for the U.S. Government. Eximbank generates \$20 in exports per taxpayer dollar, and the results would be similar on Eximbank.

On balance, these programs actually reduce, rather than swell, the budget deficit, if our projects are any example.

Critics assert that export promotion is corporate welfare which provides subsidies to U.S. companies. Mr. Chairman, I would like this committee to know that U.S. companies are prepared to work without export promotion programs when we can be assured that our competitors in other countries will be competing on the same grounds.

U.S. technology and management are equal to or superior to any in the world, and we would be pleased to work toward a system which would allow us to compete on those criteria.

At present, however, the philosophy and practical means are lacking to make the transition effectively from the present system to one which is free of market distortions. Until that is devised a coherent, integrated program of U.S. Government support is necessary to preserve U.S. market share, jobs, and our high technology manufacturing base, while limiting sales to foreign competitors who are strongly supported by their governments.

Let me close by noting that there are real risks for trade and investment in Southeast Asia. We need tax treaties with Thailand, Malaysia, the Philippines, and Vietnam. Tariff and non-tariff barriers remain excessive. Government tax and regulatory regimes are not particularly transparent. And currency risks remain high. Some of these risks can be mitigated by the market, but others require continual prodding by the U.S. Government.

The nations of Southeast Asia appreciate the benefits of foreign trade and investment. They realize that the capital skills and technology they need can only come from the private sector, much of it from abroad. The challenge for Congress and the U.S. Government today is to ensure that market openings proceed apace while acting to further reduce market distortions. That is the best recipe for continued prosperity here and rising living standards abroad.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Adam appears in the appendix.]

Mr. BEREUTER. Thank you very much, Mr. Adam.

I know Mrs. Meyers has a subcommittee chairman meeting she has convened. So I would call on her first if she has any statement or questions.

Mrs. MEYERS. I will not. I do have to go to a meeting that I called. So I have really no choice. I want to say that if it is a brief meeting, I may be back to join in the questioning.

And I thank you all very much for being here today. I have learned a lot.

Thank you.

Mr. BEREUTER. At this moment, I ask unanimous consent to place in the hearing record an overview of the U.S.-Singapore Bilateral Economic Relationship drafted by the Singaporean Government and submitted to me for consideration by Ambassador Nathan who is leaving his post as ambassador from Singapore to the United States.

[The material appears in the appendix.]

Mr. BEREUTER. And while we have attendants here, I wanted to recognize the gentleman on my right here, Mr. John Heffern, who is a Foreign Service officer who has served the subcommittee staff for more than a year now—as a Pearson fellow; and he has been of invaluable service to me and to the subcommittee and to the Congress in that capacity.

It is an excellent program—the State Department sends their Foreign Service Officers here to experience what it is like to work on a member's staff or a committee staff. And John will be leaving soon to take a post as political officer in Tokyo.

John, we are going to miss you. And I thank you for your exceptional work.

Now, I guess I can ask as many questions as you have patience or as we have the bells to tolerate.

I would like, first of all, for any of you to suggest what kinds of impediments exist on our side for enhancing our trade with Southeast Asia? Any particular impediments?

We have already heard, of course, about the competition we face with the government funds from other competitor countries as compared to our smaller funds for TDA.

But any particular impediments, not just a matter of financial resources.

Mr. Adam.

Mr. ADAM. Our projects take a long time to develop; and unilateral actions of our government trying to achieve foreign relations objectives by restricting trade or withholding credit or export licenses; this sort of unilateral action can stop a project in its tracks.

And without getting into the morality of the situation, one example is Colombia just recently where we won two power projects about 6 months ago, and with the withdrawal of certification, whatever that means; the main impact to us, of course, is those projects are stopped in their tracks. And it may be right or wrong with the drug situation, I do not have any idea there. But I do know the effect—it makes it tough on U.S. export jobs when something like that happens; and it certainly needs to be considered when these

kinds of unilateral restrictions on commerce in order to meet foreign policy objectives are considered.

Mr. BEREUTER. Mr. Adam, you are proper to bring up that kind of subject although that is one I was unfamiliar with. Some of my colleagues are very concerned about Eximbank and its current action with respect to the Three Gorges project.

Now, the Congress did change the law to require Eximbank to consider environmental factors in making decisions; but this is a new policy being implemented now. And there was recently a subway project that was stopped for no apparent reason. It seemed to be related to China proliferation issues. So there is the view that perhaps the Eximbank is gradually being politicized, especially under an acting director.

Have you seen any evidence of that, gentlemen?

Mr. ADAM. Well, we found Eximbank to be very good to work with. And I have no idea, again, on the rightness or wrongness of the Three Gorges project policy; but I do know that that is going to effectively preclude some U.S. export jobs from happening. And certainly that should be a consideration, too.

And I think regardless of what we do unilaterally on Three Gorges, the Chinese are obviously going to build the project; they are going to build it in their own way; and they will do it with European and Japanese equipment and supplies.

Mr. BEREUTER. Well, let me come back—and I led you to that Chinese example—let me come back to Southeast Asia. Can you think of any particular impediments that we, the executive branch of Congress, have placed in the way of our business interests, inadvertently or intentionally?

Ambassador Wolfowitz.

Mr. WOLFOWITZ. I must say I was startled, though not completely surprised, by the statistic Mr. Adam mentioned, that we have roughly the same level of exports to Malaysia as to Italy but five times as many commercial officers in Italy.

I would argue that I think the answer is not to move commercial officers from Italy to Malaysia, but to rather catch up in Malaysia to where we presumably reached a reasonable level in Italy.

I think we are in a very dangerous state of reducing our presence in the world, commercial and diplomatic presence, which is relatively speaking, I think, a very cost-effective way of advancing American interests.

And I notice, for whatever combination of budgetary reasons, that we have just made a decision to close the American consulate in Medan, which is one of our two consulates in Indonesia. It is really the only American presence on the island of Sumatra, which has 27 million people, huge energy investments there already, potentially very large commercial investments.

It is a rather small post. And I doubt very much that the money it would have cost to keep that post open, I think would have brought over the years, much, much bigger returns economically. I think that is something that really deserves attention.

Mr. BEREUTER. There was an op-ed piece yesterday in the Post, I think, perhaps the day before, by two Foreign Service officers who suggested that the defunding of our what, in effect, is the 150 account, that you became familiar with, is causing us to pull back

and reduce our business presence as well as our diplomatic presence around the world and that perhaps we need to restructure our thinking about what is a national security expenditure.

And I thought that article was somewhat intriguing and maybe gives us an opportunity. For example, when we had debate about IMET, which you recall well, there's no doubt that if that was funded under the authority of what was the Armed Services Committee, it would be funded at a much higher level; but since it competes with what we call the foreign aid account, it has a tougher passage.

Let me move at this question another way, then.

There are some that suggest that the countries of Southeast Asia are following the export-led growth model that Japan pursued so well. And they suggest that they are using non-tariff trade barriers to restrict our imports into the region.

I am wondering to what extent you think that is a legitimate criticism?

Mr. DAVID. Mr. Chairman, if I might respond to that.

We do not see non-tariff barriers as any material impediment for our activities in the ASEAN nations. There is some commentary and concern about non-tariff barriers in financial services. And I cannot provide any comments about that personally since that is not our line of business whatsoever. We find these markets actually rather open.

I would also like to go back and follow up to your earlier question and also to your earlier comment at the outset of this testimony where you made reference to the non-utility or the difficulty that sanctions and criticism and punishments have in relationships.

We find overwhelmingly that that is adverse for businesses. It is adverse for conciliation and for persuasion in countries around the world. Of course, the place where we find the sanctions behavior the toughest and the most visible is with respect to China. We do not see sanctions as really any kind of material issue in the ASEAN nations all together. But I would be quick, as one private citizen and one private company, to reinforce strongly your comments that the way to bring these markets and these political systems to American standards and American behaviors is by involvement and by relationships and by persuasion and by example rather than by punishment and sanctions.

Mr. BEREUTER. Thank you.

Dr. Noland.

Dr. NOLAND. The countries of Southeast Asia have very different economic histories than Japan. And while there are certainly trade barriers in these countries, the whole thrust of their economic policies, I think are very unlike what has been observed in Japan and perhaps elsewhere in Northeast Asia.

And, indeed, the statistical evidence produced in the academic literature does not support the notion that these countries are following Japan in terms of their export performance.

I think where Japan comes into the picture in the region, however, is the idea that with the Japanese market probably growing fairly slowly over the next few decades, U.S.-Japan rivalry will increasingly play out in Southeast Asia, both the sort of rivalry that Mr. Adam has alluded to in terms of support for infrastructural projects and also a concern that Japan may be, in effect, exporting

certain anticompetitive business practices, such as the keiretsu to Southeast Asia.

I do not think at this point that is a particular great problem, but it is an understandable concern. And I think there are policies that the United States could undertake in cooperation with the countries of Southeast Asia if it is something we think is a big problem.

Mr. BEREUTER. I noticed that while our exports are going up dramatically to Southeast Asia our market share is not going up.

Who are the major competitors overall, not in a particular sector? Are we seeing some countries that are increasing their market share? Or is it pretty much everybody's holding their own current market share?

Dr. Noland.

Dr. NOLAND. The situation in Southeast Asia is that these economies, as Ambassador Wolfowitz mentioned, are growing at an average of 7 percent a year. And if you throw in some other countries in the region, such as China and Korea, who are also growing very rapidly, what is happening is simply algebra at work.

If one country's market is growing at 7 or 8 percent a year and another country's market is only growing at 2 percent a year, then over time, increasingly, your trade and probably your investment pattern will shift toward the rapidly growing country.

And so what we see in Southeast Asia is that there has just been an enormous explosion in the last decade of intra-regional trade and investment. Countries, both within ASEAN and outside ASEAN, are investing in each other. For instance, automobiles now, you have spark plugs being made in one country, transmissions being made in another, and the actual automobile assembled in a third. That is fundamentally what is going on. And although those countries are increasingly important to us in an absolute sense, the simple fact that we are growing a lot more slowly than they are means that, in a relative sense, our position is declining.

Mr. BEREUTER. We hear a lot about—excuse me. Mr. Adam?

Mr. ADAM. I was just going to comment that in the power generation industry, I believe U.S. companies are holding their own very well. I do not have any statistics, but my impression is that we are at least holding our own; and we may actually be increasing our market share.

Our major competitors are, of course, the Japanese and the major European countries; and we watch that quite closely. But I believe we are doing well in power generation.

Mr. BEREUTER. Ambassador Wolfowitz mentioned the fact that we were closing a consulate in Sumatra. And, of course, we are closing a number of consulates. You perhaps saw an article about the reduction in our presence around the world.

And just recently someone suggested we open one in Ho Chi Minh City, that the business opportunities there are very substantial, the potential for growth is very substantial.

From a businessman's point of view—and I would address this to Mr. David and Mr. Adam—how important is it to have consulates?

We hear so much about the opportunity to do more of what we traditionally did in our embassies and our consulates now by other means rather than being there on the spot. No doubt there are advantages to having people there.

Just how important is it to have a broader presence of American commercial, agricultural officers, and other members of the diplomatic service at the various places in Southeast Asia?

Do you have any opinions on the subject?

Mr. DAVID. Mr. Chairman, I guess I have both a response and a caution.

I think there are two broad categories of American companies. And, of course, I oversimplify dramatically.

The very biggest multi-nationals—and I would include our own company in that population—are adept and agile and pretty quick in moving into foreign markets.

In our own case, we employ more than 100,000 people outside the United States, as I mentioned earlier, in 1900 cities in the world. And we have language capability in easily 50 languages around the world.

And so it is not a difficult issue at all. And I would say that normally we are not reliant on the commercial attache portions of the embassies. We need to level the playing field. I think the place where these commercial sections of the embassies are most effective are with the smaller American companies.

If I could return for a moment to the question of loss of American share of market in these emerging markets, I think the real issue is not so much level playing field or lack of it; it is not so much involvement of our government. There are always things we can do more. We need to reaffirm traditional agencies like TDA—and I would certainly echo Mr. Adam's comment about that—Eximbank, OPIC, and so on and so forth.

The real issue is actually American companies themselves. And I think we in the private sector need to take a certain amount of burden upon ourselves. Our problem historically is the American market has been such a huge homogenous, easily accessed market, that the instincts of many American companies are not to go overseas.

This is almost a matter of public persuasion, of political leadership, of corporate leadership taking to the podium and being persuasive to the people of America and American business people that the real issue in the future in the world is these emerging market economies. Because, as I said earlier in my remarks, there is \$28 trillion in the world economy today and \$108 trillion in 20 years' time, and most of it is outside the United States.

And so self-interest says we ought to, frankly, get off our posteriors and get out there and go sell.

Mr. BEREUTER. The latest population figures seem to suggest that every 96 hours the world adds a net of a million people. So there are an incredible number of additional people out there as potential customers. And they are almost all outside the United States.

I guess we will have about 5 percent of the world's population in the next century.

Mr. DAVID. Just to respond to that comment, if I may, Mr. Chairman, add a statistic. 76 percent of the wealth of the world is in the United States, Canada, Japan, and Western Europe. 76 percent.

87 percent of the population is not. And that is not an argument for foreign aid or for handouts to poor people. It is, instead, I think, a fairly clear statement of where economic opportunity lies in the future.

It is those 87 percent of the people of the world that are going to add dramatically to wealth. And we need to participate in that because it is the wealth generation and our share of it, as we create it, that will pay the salaries of the people at home in America.

Mr. BEREUTER. Ambassador Wolfowitz, I cannot help asking you a question on Indonesia because of your expertise developed as our ambassador there.

Once again, we went through IMET discussion on Indonesia and about East Timor and examples that are 15 years old being used against granting E-IMET, which is aimed specifically at enhancing human rights performance on the part of the Indonesian military.

I am considering to what extent you believe the American business community can or has already had any positive impact upon two things: One, on proper utilization conservation of nature resources; two, on human rights activities within the Indonesian population by the government?

Is there any evidence that we have thus far?

Do you think that there is any substantial likelihood we can have a positive impact for your business community on the Indonesian Government for those two subject areas?

Mr. WOLFOWITZ. If I might first make a comment on the subject of IMET, I had a good deal of experience in dealing with Indonesian military officers; and I would say that the experience was pretty consistent, that those who had some experience in the United States, by virtue of having come here for training, had a much greater willingness to talk openly about issues of human rights, a much greater understanding of our system and a much greater respect for it than the ones who had spent their entire careers in Indonesia.

And I cannot imagine anything—well, I guess I can imagine a few things. It is hard to imagine something more counterproductive for advancing human rights in Indonesia than to tell the Indonesian military that they cannot come to the United States for training.

If we wanted to make a point—and it is not clear to me what point we are trying to make, since I think the Indonesians have gone a very long way—and this is not Tiananmen, this is not the Chinese Government thumbing their nose at us after a massacre. This is a government that apologized for it and took some considerable measures to deal with the consequences of the massacre in Dily.

But in any case, we did not advance human rights at all by keeping Indonesian military from training here.

Mr. BEREUTER. In the last 6 months, the code of conduct has been distributed to the military; and it was written by an officer. I asked him: "Where did you come up with your ideas?" And he

said, "I got it at my training at the U.S. Judge Advocate General Corps School."

Mr. WOLFOWITZ. That is a good example. I did not know that one. That is excellent.

I am not aware of where American companies directly influence the government, but I do think they influence the climate in the country in important ways. And I think one of them is—we have not talked about the Foreign Corrupt Practices Act. Maybe it is worth mentioning it.

I think that on the whole, because our companies—and they sometimes grumble about it—but because they are subject to those restrictions, they are much better about following local laws and sound policies, I think, by and large, than some of our competitors; and I will not name names. But at the same time, we are able to compete. And one of the reasons we compete so well—let us take the oil sector—though its relative importance is declining, it is still the biggest single sector of the Indonesian economy; and the foreign presence there is overwhelmingly American.

I think we are there even now, at times, our standards are a little more difficult in what one would euphemistically say the local business climate. But we are there partly because we have such good technology and because we have such a terrific record of passing it on to Indonesians. And it is very striking when you visit American companies in that country that you find Indonesians at all levels of the company, and an overwhelming proportion of the work force is Indonesian.

We do a very good job of that. And I think in the process, we pass on some of our own standards to the people that we train and employ. I think that is probably the single biggest influence of American companies, and I think it is very large.

I suspect if one looked into the details of how we operate on especially big projects, I think one would also see that because our companies are international, they have international concerns, they have an American political constituency that they are attentive to, I think on the whole, I would think their environmental record is better than some of the alternatives. But I cannot give you specific examples there.

Mr. BEREUTER. I wonder if any of you would have any suggestions about actions you would like to see the Congress take or repeals that you would like us to implement?

Very broad question, I understand.

Mr. DAVID. If I might follow up, Mr. Chairman, on Ambassador Wolfowitz' comments about the Federal Foreign Corrupt Practices Act.

I think you would find that corporate America, in general, enthusiastically supports the FFCPA. Sometimes it places burdens on us, but I think those are burdens that we readily accept. And I think you would find most of corporate America would be very strong in calling for no relaxation in the Foreign Corrupt Practices Act as we have it by statute today.

But I think you would also find us calling for strengthened efforts to the extent possible to try to write comparable legislation into other nations' statutes around the world. I note that the OECD has a project in deliberation now to do that for the OECD

member nations. If anything, if we need to work hard to strengthen the legislation and statutes elsewhere, outside the United States, and not in any way to relax our own.

Mr. BEREUTER. I agree.

Mr. WOLFOWITZ. I think that is a very important point, and I would support it enthusiastically.

Mr. BEREUTER. And you are right to bring up the OECD's effort. I think that they are making substantial progress on that now and having a higher degree of acceptance among the developed countries that are members of the OECD.

I guess some of my colleagues and I were a little bit surprised, a little over a year ago we visited the OECD and discussed this issue, to find that certain countries—Germany, for example—still permit bribes to be taxed—foreign bribes to be tax deductible, which is pretty mind-boggling.

They are not alone in that respect, by the way.

Gentlemen, I will give you a chance for any last comments you might like to make and then conclude the hearing.

Mr. Adam.

Mr. ADAM. Maybe just one additional answer to that last of yours, Congressman.

I think what Congress can do is recognize the importance of TDA and Eximbank. And I mentioned that the United States has maintained market share, even increased market share, in power generation. I think the Eximbank, particularly, has been a key to that. We are quite often invited to participate in projects, either by Japanese or European suppliers where the United States maybe does not get the whole project but maybe we get a third of the project, and we get that because of that Eximbank credit support.

So it is very important to our maintaining a market share, and I think Congress would do well to support a continuation of that.

Mr. BEREUTER. Thank you. We have an interesting coalition that has emerged over the last several years of people on the far left of the spectrum and some of our newest and most conservative members of the Republican Party who are increasingly in opposition to these kinds of expenditures, viewing them and categorizing them—in my judgment, improperly—as “corporate welfare”. So it is an interesting coalition on the two ends that have different reasons for being in opposition to increased expenditures and who, in fact, have been attempting to slash them.

So I think you could help us a lot, in the business community, by pointing out the advantages, in a very direct sense, as you did, about the tax dollars that are generated by the TDA funds that are spent early in this project development process.

Dr. Noland.

Dr. NOLAND. I would just like to say that these countries are enormously important to us. As the issues that we face with them economically move from things like tariffs and quotas and we start getting more and more involved in things like labor standards, the environment, human rights, I think it is really of enormous importance that we be very careful in our public diplomacy, because I think that we could well have counterproductive effects in these countries by appearing to be bullying them about what are issues that have a very strong domestic political component to them.

Mr. BEREUTER. Thank you. That is good advice, I think.

Mr. David, any last comments?

Mr. DAVID. Yes. I think my last comments would be, in just a couple of words: "Much more of the same." I think we are at a pivotal time in the world's affairs with the collapse of communism.

40 percent of the world's population has lived for generations under totalitarian regimes. These are opening. There are enormous increases in relationships in technology transfer, in investment flows, in trades between these formerly closed and now more open societies.

There could not be a more important time for America to put the pedal down and for us to aggressively engage, both in terms of trade and in terms of foreign direct investment, because that is the way by which we export our viewpoints about politics, about law, about business practices, about capitalism, about environmental issues, and everything else. We do it by virtue of engagement.

And that is why, perhaps just a final comment to so strongly reinforce your opening comment on the sanctions and negative behavior. That is not a good way to bring people to our viewpoint. We do it with patience and consultation and example and leadership. That is how it happens. And to me, the one word that it comes down to, all of that, is "engagement".

Mr. BEREUTER. Thank you, Mr. David.

Ambassador Wolfowitz, any last comments?

Mr. WOLFOWITZ. Yes, I would like to make two points in response to your question about what can the Congress do?

First of all, I really think we are making a very big mistake as a country in reducing our ability to operate overseas at a time when operating overseas is a more and more complicated business. As I said, it is not that the job in Italy has gotten smaller. It is that the job in Malaysia has gotten larger.

And we have a whole brand new set of countries in the former Soviet Union that are potentially of great importance, extremely complicated, difficult posts to staff. And I think it is really penny-wise and pound-foolish to start looking at these. I think it is very often looked at as symbols of efficiency. We cannot bring ourselves to belly up to the billion dollars of fat in the budget, so we argue about whether we could do with or without a particular presence in a particular place.

My instinct says that that consulate in Medan is going to bring real returns over time. What I do know is it is a very, very modest expenditure and that it has a big impact in the countries where it is felt.

And that leads me to my second comment. I think that one of the most valuable things we do for the countries and for our own interests in those countries is the extraordinary number of people who are educated in the United States and about the United States.

Let me say about the United States, I am referring particularly to the efforts of the U.S. Information Agency. I could observe a significant decline just between the resources that were available in the 1950's and 1960's and the resources that were available when I was there in the 1980's.

We had some very valuable dealings with a leader of a very progressive Moslem school in Central Java who had a terrifically posi-

tive impression of the United States. In fact, he had collected every single issue of a magazine—sorry, I have forgotten the name of it—that was put out in the 1950's by USIA. And he said, how could I get a subscription? Unfortunately, the answer is the magazine does not exist any more. We have defunded it. I am not saying we can afford to keep up all of these things, but the impact that they make on people is hard to exaggerate.

The impact of bringing people here is even greater. And in that respect, I think we are lucky that we have the best educational system in the world and people will pay these staggering tuition fees to come and be educated here. I have forgotten, I think it is 20,000 Malaysian students, or numbers of that magnitude, in the United States.

Of course, most of them are paying their way, something that helps us in the services balance. More importantly, those people go back understanding our system and are much more likely to be good business partners for us in the future.

And I think anything the Congress can do to keep the doors open and keep those people coming really will pay huge dividends.

Mr. BEREUTER. Thank you very much.

Thanks to all of you for your time and for your testimony. It was valuable to the committees, and I think we have made a contribution here.

Thank you very much.

[Whereupon, at 4:10 p.m., the subcommittees were adjourned.]

APPENDIX

OPENING STATEMENT OF THE HONORABLE JAY KIM

SUBCOMMITTEE ON ASIAN & PACIFIC AFFAIRS HEARING ON SOUTHEAST ASIA REGIONAL SECURITY MAY 30, 1996

Mr. Chairman, I have a very brief opening statement:

First, I apologize in advance for my having to come and go during this hearing. I also serve on the Aviation Subcommittee and we are marking up a 3 different aviation bills at the same time this hearing is being conducted. Fortunately, the Aviation meeting is just down the hall.

Second, I welcome any comments from Ambassador Lord regarding the letter I faxed over to him last night. I was astonished to read in yesterday's *Washington Post* that our colleague from New Mexico travelled to North Korea last week as an "unofficial emissary of the White House." That quote is from the newspaper. If this press report is accurate and the Clinton administration did encourage and endorse this trip, then I am extremely disappointed--in fact, I feel I've been deliberately misled. Secretary Christopher and Ambassador Lord personally assured this Committee that they, too, were outraged by the North Koreans' apparent discriminatory policy of picking and choosing the Members of Congress with whom they would meet. I was told strong protests would be made.

I don't want to get us sidetracked on this issue, but I am very, very disappointed with what I read in the newspaper and, if it is true--(and I do note that I am asking about this because I do not know the accuracy of the newspaper's reporting), then this situation could result in serious problems between this Committee and the administration.

Third, I also welcome this timely hearing as just last month I visited Singapore, Malaysia and the Philippines. Security and trade issues were on the top of my agenda--as they were on the top of the agendas of President Ramos, Prime Minister Goh and other leaders I met.

I'm afraid we--collectively as a country--do not focus enough attention on ASEAN, or on the rest of Asia for that matter. There is so much potential and so much goodwill towards the United States. Yet, sometimes, like with certain parts of the annual Human Rights report, we seem to go out of our way to insult our Southeast Asian friends and complicate the improvement of relations.

I look forward to the testimony of the witnesses and participating the discussion that will follow. Thank you.

Statement of

Ambassador Winston Lord

Assistant Secretary of State
Bureau of East Asian and Pacific Affairs

May 30, 1996

Before the House International Relations Committee
Asia and Pacific Subcommittee

Southeast Asia Regional Security Issues:
Opportunities for Peace, Stability, and Prosperity

Introduction

Mr. Chairman and distinguished members of this Committee, I am very pleased to come before you today to discuss regional security issues in Southeast Asia. I commend you once again for holding a hearing on issues that deserve thoughtful exploration and debate. On many previous occasions, we have met to address our interests and concerns in other parts of Asia: China, Japan and the Korean peninsula, for example. At many of those sessions the focus of our discussion has been not so much on opportunities as on the problems we face and the ways you and we, working together, might try to solve them.

Such was the case during the 1960s and 1970s when there were many such hearings on the painful challenges posed by the conflict in Southeast Asia. Back then, few could imagine, let alone focus on, the great promise and potential the region could achieve in just a few decades. That we have not had frequent sessions on the situation in Southeast Asia during the 1990s is not a sign of neglect, but a tribute to the profound, positive changes that have occurred in the region. Indeed, I can think of no part of the world that has come so far so fast, not just in terms of security, but in terms of economic and political development. Where in the past we saw tension and conflict, we now see cooperation and a real sense of community.

Without returning to the debate over the Vietnam War, I think we can find some solace--amidst the pain--in our involvement in that war by recalling the shield we provided for the nations of Southeast Asia.

Just last month, Foreign Minister Jayakumar of Singapore delivered an excellent lecture at Georgetown University on this very topic. In his remarks, the Minister argued that America's sacrifice in Indochina bought valuable time for the non-communist countries in Southeast Asia to put their economic houses in order, providing breathing space which laid the foundation for the rapid economic growth we see there today. He concluded that America's forward military presence is

essential for Southeast Asia's continued stability and prosperity. Through continued strategic, military, and economic engagement in Southeast Asia our people can now benefit from the sacrifice we made in Vietnam decades ago. As Foreign Minister Jayakumar said: "...the United States remains an indispensable factor of any new configuration for peace, security and economic growth in the Asia-Pacific. Only the United States has the strategic weight, economic strength and political clout to hold the ring in the Asia-Pacific." I have here a copy of Foreign Minister Jayakumar's speech, and I ask that it be entered in the record.

Relations with Southeast Asian Countries

The countries of the Association of Southeast Asian Nations (ASEAN) have been at the heart of the remarkable progress of the last several decades. Indonesia, Malaysia, the Philippines, Singapore and Thailand decided to put aside their differences in 1967 when they issued the Bangkok declaration, a truly visionary step designed to promote the goals of political and economic cooperation in the tumultuous and threatening environment of the Vietnam war. Since then, the countries of ASEAN have succeeded splendidly in realizing their goals. Just as the creation of the European Union served to dampen the historical enmities in Europe and forge fresh cooperation, the growth of ASEAN has had a similar effect in the Southeast Asia region. The ASEAN nations have not only become the model for regional integration and cooperation, but they have helped to pave the way for other visionary initiatives such as the Asia-Pacific Economic Cooperation (APEC) forum and the ASEAN Free Trade Area (AFTA).

ASEAN, formed at a time of conflict in Vietnam, came full circle in 1995 when it welcomed Vietnam as a member. Both Cambodia and Laos are scheduled to join ASEAN during the coming year. Burma could become a member by the turn of the century.

The United States and Vietnam also entered a new phase of relations with the normalization of diplomatic relations on July 11, 1995. This progress in relations with Vietnam has above all reflected and encouraged its cooperation on our highest priority issue--the fullest possible accounting for our MIAs. It also promotes our regional security and economic interests.

Security is essential to the creation of a peaceful and prosperous Southeast Asian region, and the United States continues to do its part. We have special relationships with two of the ASEAN countries -- the Philippines and Thailand are treaty allies. Other ASEAN nations in recent years have also provided access to compensate for the loss of Philippine bases and to keep the U.S. engaged in the region. Singapore, which receives 80-90 U.S. navy visits a year and hosts periodic stationing of U.S. airforce contingents, is a key part of USCINCPAC's "swing" strategy between Northeast Asia and the Middle East. Similarly, since 1992 our naval vessels get periodic repairs in Indonesia. Malaysia also makes available

commercial repair facilities for U.S. ships and aircraft. Brunei and the U.S. conduct periodic joint training under our recently concluded Memorandum of Cooperation.

Through our participation in the ASEAN Regional Forum we hope to promote stable relationships throughout Southeast Asia. The ASEAN Regional Forum is a young organization. Its inaugural meeting was held only in 1994. But it is clear that the organization can play a key role over the years ahead in promoting peace and security through confidence-building measures, enhancement of transparency, and other forms of cooperation.

We believe that a strong U.S. security presence is essential for the continued stability and prosperity of the region. Our 100,000 soldiers, sailors, airmen, and marines deployed in Asia underscore our commitment to the region. This presence is warmly and widely welcomed by the nations of the region as serving stability and signaling U.S. engagement. Although the post-Cold War era has left the region largely free of conflict, and many age-old rivalries stemming from the colonial era and even before have passed into history, there will always be a concern that today's peace and prosperity, if not carefully nurtured, could slip away. We have all welcomed the dynamic growth of the region, but this growth, stimulated by competition, can lead to new tensions. Development has put pressure on the environment. Narcotics is a major concern. By cooperating with our Southeast Asian friends, we can ensure that the peace and development of today is not undermined in the years ahead.

I realize the focus of our session today is on security issues, but we should not let pass the opportunity to mention the region's economic security as well. With the peace of the past twenty years has come prosperity. And continued prosperity--as well as the growing economic interdependence of the region--contributes to security.

The ASEAN nations form one of the most dynamic regional markets in the world. GDP for ASEAN's 400 million people exceeds \$500 billion, and the GDP has grown by an average 7 percent annually for the past six years. ASEAN, as a whole, is our fourth largest trading partner. Two-way trade is approaching \$100 billion. U.S. investment in the region already exceeds \$20 billion. And both trade and investment are increasing sharply. We are committed to working with ASEAN and the other countries of Southeast Asia to ensure that this trade is free and fair, and that their markets remain open to American business. These growing economic ties promote prosperity and economic security, not only in Southeast Asia but here at home as well.

Recent events have focused particular attention on two Southeast Asian nations which aspire to eventual ASEAN membership. The situation in Burma over the past week has

significantly altered the country's political dynamics. Aung San Suu Kyi, despite intimidation by the State Law and Order Restoration Council (SLORC), successfully and defiantly hosted a convention by her party, the National League for Democracy; addressed a crowd of 10,000 supporters; and called for genuine dialogue with the military junta. We were encouraged that Aung San Suu Kyi was able to hold her party congress. However, the SLORC continues to detain more than 250 NLD supporters, and there are unconfirmed reports it may bring charges against some of those detained. We deplore these detentions and call on the SLORC to immediately and unconditionally release all of those who have been detained. The United States has made the strongest possible representations to the Burmese authorities in Rangoon and Washington.

Our objective is to do what we can to inhibit the SLORC from increasing the oppression -- including a resort to violence -- and promote movement toward a direct dialogue between the SLORC and the NLD aimed at national political reconciliation and democratization. Further to this end, we are consulting closely with other interested nations on steps to take to press the regime to release the detainees and enter a dialogue. We will continue to make it clear to the military regime that it will not gain international legitimacy until it starts talking to the legitimate representatives of the Burmese people.

The United States supports efforts in Cambodia to build democratic institutions, promote human rights, and foster economic development. We are concerned about recent political developments in Cambodia, particularly indications that political intolerance may be growing. Administration officials have made several visits to Phnom Penh since late last year to express our concerns candidly with Cambodian leaders, and we continue to follow the situation closely. Most recently, we promptly condemned the killing of newspaper editor Thun Bunly on May 18, expressed our concern both in Phnom Penh and Washington, and have urged Cambodian authorities to find and punish those responsible.

We are also concerned that political disagreement between FUNCINPEC and the CPP over power sharing and other issues, if not properly handled, could adversely affect Cambodia's stability. We continue to urge all sides to make a concerted effort to work out their differences peacefully in accordance with the laws and constitution.

Together with our concerns, it is important to remember that Cambodia has come a long, long way in the past few years. The country has suffered through decades of turmoil, slaughter and civil war that devastated its infrastructure and traumatized its population. The Cambodian people have already traveled a great distance from this dark past. Politically motivated violence, while not completely eliminated, has

dropped sharply, Khmer Rouge strength is being steadily reduced, and thousands of refugees have returned to their homes. Perhaps most important, Cambodians chose their government in a free and fair election in 1993. We must maintain a balanced perspective while we work with the Cambodians on overcoming the many obstacles ahead. In pursuit of our goals, the U.S. Government provided \$40 million in assistance for Cambodia in 1995, and we anticipate that 1996 levels will be close to \$30 million. U.S. assistance has had an immediate and visible impact on the lives of hundreds of thousands of Cambodians, and has been vital in advancing U.S. interests in democratization, rehabilitation of the country, and preventing the return to power of the Khmer Rouge.

ASEAN Regional Forum

The ASEAN Regional Forum (ARF), which was first proposed by the Association of Southeast Asian Nations in 1993, currently is the only region-wide, governmental-level, multilateral security dialogue in the Asia-Pacific region. Current membership includes the seven ASEAN nations (Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam) plus the U.S., Australia, Cambodia, Canada, the PRC, the EU, Japan, South Korea, Laos, New Zealand, Papua New Guinea and Russia. India and Burma are expected to join at the ARF Ministerial Meeting in Jakarta in July which Secretary Christopher will attend.

U.S. engagement in regional security dialogues in the Asia-Pacific, including the ARF, has been encouraged by this Administration. Previously the U.S. had been cautious about regional security dialogues, because it feared our engagement in them would be construed as a mask for our withdrawal from a leadership role in regional security. This Administration decided that active U.S. support for such dialogues could enhance, not weaken, our security leadership, as long as it was coupled with a renewed commitment to our forward military presence and strengthening of our bilateral alliances. We see ARF as something that complements, not supplants, our bilateral relationships in Southeast Asia. We will maintain these bilateral alliances while monitoring what we hope will be the continued strengthening of the ARF process. We will neither lose sight of ARF's security dialogue potential; nor will we prematurely inflate its progress.

The ARF Concept Paper agreed to in 1995 sets forth the purpose and potential of the ARF. While no timelines were established, the Paper envisages ARF evolving through three stages of security cooperation: confidence building, preventive diplomacy and elaboration of approaches to conflicts. Despite caution on the part of some members that the organization is evolving too quickly, the ARF has begun to move incrementally to ease tensions, reduce suspicions, and cultivate consultation habits. Working with others we will

seek to promote these habits of consultation and dialogue in a region generally unaccustomed to such open exchanges.

Since the first ARF Ministerial Meeting in 1994, ARF's disparate members have become increasingly comfortable discussing relatively controversial subjects--such as nuclear testing, the situation in North Korea and conflicting claims in the South China Sea--in plenary sessions. There is still a way to go, however, for ARF discussions to evolve from set pieces to more genuine give and take. Nonetheless, when one looks at the extremely diverse composition of the forum, it has already come a substantial distance in only two years. With deliberate encouragement and support from its major players, ARF can develop over time into a useful forum for preventive diplomacy and conflict resolution.

The ARF's potential for defusing regional tensions was shown last year when it helped to lower the heightened tensions caused by a series of incidents in the South China Sea. ASEAN issued a joint statement in March, 1995, which called for peaceful resolution of the territorial claims in the South China Seas. This was followed in May by the strong -- and warmly welcomed -- US statement of official policy on the Spratlys/ South China Sea. These statements, along with ASEAN's determination to ensure discussion of the issue at ARF senior officials and ministerial meetings, resulted in a freeze on activities in the area and a fresh emphasis on diplomacy. One positive result was a constructive statement by Chinese Foreign Minister Qian Qichen at the August 1995 ARF indicating that Beijing would seek to resolve the Spratlys/South China Sea dispute peacefully based on principles embodied in the Law of the Sea Convention. The ARF discussion of this issue was seen by countries of the region as making an important contribution to reducing tensions in the South China Sea.

In the past year ARF has fleshed out its first goal of confidence building by sponsoring a series of working groups and meetings on confidence building, peacekeeping operations and search and rescue. Each of these meetings is co-hosted by an ASEAN and a non-ASEAN member; the U.S. and Singapore are co-hosts of the ongoing search and rescue meeting. The first session took place in March in Honolulu, and there will be a second meeting in early 1997 in Singapore. A fourth working group on disaster relief coordination will be established in July, pending ministerial approval.

I headed the U.S. delegation to the most recent ARF-related meeting, that of Senior Officials, held in Yogyakarta May 10 and 11 to prepare for the July Ministerial Meeting. The lively and productive May meeting presages a productive Ministerial. Although we are still shaping our positions with respect to the upcoming ministerial, priority topics for the U.S. are likely to include support for a full range of initiatives associated with nonproliferation of weapons of mass destruction and transparency of conventional arms transfers, ARF encouragement

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of Korean peninsula initiatives such as the Four Party Peace Talks and KEDO, and a wide ranging, mutually productive exchange of views on other regional security issues. We will also support the ongoing work in various confidence building areas.

Regional Arms Sales

The USG arms transfer policy for the ASEAN region follows the guidelines established in the U.S. Policy on Conventional Arms Transfer (CAT), signed by the President on February 10, 1995. This policy serves five goals:

- Ensuring that our military forces can continue to enjoy technological advantage over potential adversaries;
- Helping allies and friends deter or defend themselves against aggression while promoting interoperability with U.S. forces when combined operations are required;
- Preserving regional balances of military forces while preventing the proliferation of weapons of mass destruction;
- Promoting peaceful conflict resolution and arms control, regional stability, human rights, and other foreign policy objectives;
- Enhancing the ability of the US defense industrial base to meet US defense requirements and maintain long-term military technological superiority at lower costs.

The principal factors driving Southeast Asian arms enhancements in recent years have been increased financial resources from robust economic growth; ongoing requirements to modernize obsolete systems, principally aircraft; a partial switch in defense doctrine from counterinsurgency to conventional military operations; a requirement to protect extended economic zones and claims in the Spratly islands; and a desire to strengthen defense self-reliance.

ASEAN governments perceive little prospect of inter-ASEAN armed conflict. This in part explains the absence of a region-wide arms race. Within ASEAN, countries' acquisition of advanced weaponry typically has involved small numbers of systems, taking into account cost, personnel and infrastructure constraints. The ASEAN countries themselves have recognized that their defense procurement generally serve to modernize forces and replace outmoded equipment, though in the process a number of them are adding significant new force-projection capabilities.

Long-standing U.S. policy has been to treat ASEAN members as equal in terms of our willingness to supply high-technology weaponry. Approval of a weapons system for one ASEAN country has generally meant approval for all--subject, of course, to a

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recipient's ability to finance, operate, and integrate a given system, as well as to our policy against being the first to introduce a new technology into a region. Where there have been special concerns -- for example, over human rights in Indonesia -- we have adjusted this policy without abandoning it. Since the U.S. has long been the region's preferred arms supplier, this policy has helped to ensure a regional arms balance.

International Military Educational Training (IMET) has been and continues to be a valuable component of U.S. foreign policy and in furthering peace, stability, and respect for human rights in the region. IMET training emphasizes the importance of civilian control of the military, military justice, and respect for international human rights standards. IMET supports U.S. objectives of promoting reforms and strengthening professionalism in Asian armed forces, making them institutions capable of protecting sovereignty while respecting civilian authority and citizens' human rights. IMET focuses on training military personnel about respecting human rights and implementing accountable military justice by exposing them to our own professional military personnel and procedures, which function under civilian control.

As ASEAN expands, our arms-transfer policy must obviously reflect that Vietnam remains a proscribed country under U.S. arms export control laws and therefore is ineligible to purchase U.S. origin-defense equipment. In Burma, as long as the current despotic military regime continues, that country will be prohibited from purchasing US arms.

A major benefit of our arms transfers to the region has been to sustain and expand U.S. military capability in the region through enhanced interoperability and joint exercises. In addition, several of the ASEAN countries were helpful during the Gulf War in 1990-91 in allowing the movement of U.S. forces through the ASEAN region on their way to the Middle East. Many of these countries are also making significant contributions to international peacekeeping.

The U.S. Government plays a limited role in promoting sales to the ASEAN region. ASEAN governments and arms producing companies typically discuss a potential sale first, and then approach the USG for approval. Only if a particular requested system meets the criteria for transfer and other producing countries enter the competition do the USG and its embassy personnel become involved in advocacy.

South China Sea Territorial Issues

The Spratly Islands and surrounding South China Sea are the object of competing territorial claims among Brunei, the PRC, Malaysia, the Philippines, Taiwan, and Vietnam. As I have already noted, some modest, but positive, diplomatic efforts by these countries in 1995 eased tensions between China and the

Philippines. A unified ASEAN approach on the Spratlys in April 1995 meetings with China, discussion of the South China Sea situation at the August 1995 ASEAN Regional Forum, and separate, more intense, bilaterals among the Philippines, China and Vietnam have all contributed to this modest improvement. Our own May 1995 public statement on the South China Sea was also welcomed by ASEAN as making an important contribution to diplomatic efforts to ease tensions.

Maintaining freedom of navigation is a fundamental U.S. interest. Unhindered navigation by all ships and aircraft in the South China Sea is essential for the peace and prosperity of the entire Asia-Pacific region, including the U.S. We appreciate the efforts of all claimants that have reiterated their support for the principle of freedom of navigation in the South China Sea.

The U.S. is concerned that unilateral actions and reactions in the South China Sea might increase tensions in the region. We strongly oppose the use or threat of force to resolve competing claims and urge all claimants to exercise restraint and to avoid destabilizing actions. Our May 1995 statement calls upon all claimants to intensify diplomatic efforts to address issues related to competing claims, taking into account the interests of all parties. It also expresses our opposition to any maritime claim inconsistent with the 1982 UN Law of the Sea Convention. We welcome any diplomatic initiatives which support mutual restraint by all claimants and ease tensions in the South China Sea. We reiterate our willingness to assist in any way the claimants deem helpful. I would like to submit the full text of this statement for the record.

Southeast Asia Nuclear Weapon Free Zone

The U.S. has stated on several occasions that it is prepared to consider positively a Southeast Asia Nuclear Weapon Free Zone (SEANWFZ) Treaty, provided it conforms to our long-standing criteria for supporting nuclear weapon free zones. The fact that the U.S. has recently signed the Protocols to the treaties establishing the South Pacific Nuclear Free Zone (SPNFZ) and the African Nuclear Weapon Free Zone is proof of our willingness to support nuclear weapon free zones when they are designed in accordance with our long-standing criteria.

The United States, however, has significant concerns with the current text of the Southeast Asia Nuclear Weapon Free Zone Treaty signed in Bangkok, December 15, 1995 and its accompanying protocol. We have made these concerns known to the Southeast Asian states on numerous occasions. These concerns are also shared by the other four internationally recognized nuclear weapon states.

One of the most significant issues preventing us from supporting the treaty at this point is the inclusion of

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Exclusive Economic Zones (EEZ's) and continental shelves in the zone, which raises questions about the consistency of the treaty with high seas freedoms and other principles embodied in UN Convention of the Law of the Sea. Furthermore, continental shelves and EEZ's have never been clearly delimited in the South China Sea, which creates uncertainty over the scope of treaty and protocol obligations and could be a source of conflict due to competing territorial claims in the region.

The U.S. has other concerns with the treaty and protocol including the precise nature of the legally binding negative security assurances from protocol parties; ambiguity of language concerning the permissibility of port calls by ships which may carry nuclear weapons; and the procedural rights of protocol parties to be represented before the various executive bodies set up by the treaty to ensure its implementation.

We have indicated our willingness to continue consultations with ASEAN to try to resolve our remaining concerns and such consultations have taken place and are expected to continue. The U.S. will also consult with the other nuclear weapons states, who share our legitimate security concerns. The Administration cannot predict when or if agreement can be reached with the Southeast Asian states on a solution that would permit the U.S. to consider signing the SEANWFZ protocol.

Conclusion

In sum, the U.S. has been working quietly, but effectively, to build relationships with the Southeast Asian countries that reflect the new opportunities created by a post-Cold War security environment and Southeast Asia's own dynamic economic and political growth.

I have described today the key elements of those relationships--our alliances; our forward military presence; a "places, not bases" strategy that provides our military with access arrangements and operational cooperation; practical support through IMET and foreign military sales that enhances Southeast Asian military cooperation with the U.S. consistent with our global conventional arms transfer policy; new and expanded multilateral cooperation through the ASEAN and ARF processes that complement our bilateral relationships; and U.S. support for the efforts of the nations in the region to address potential regional trouble spots such as the South China Sea.

Mr. Chairman, we believe that cumulatively these policies are promoting a more stable and mature relationship with Southeast Asia that serves U.S. interests and enhances regional security.

Thank you.

Testimony of Dr. Kurt M. Campbell
Deputy Assistant Secretary of Defense
Asian and Pacific Affairs/ International Security Policy
Before the House International Relations Committee
30 May 1996

"The United States and Southeast Asia:
The Challenge of Security"

Mr. Chairman and distinguished members of the Committee. Thank you for this opportunity to come before you today to discuss important regional security issues in Southeast Asia. Secretary Lord has delivered the Administration's overarching political and security perspectives of the region; I would just like to supplement his testimony with a few observations on the very positive consequences of U.S. engagement in the past two decades in Southeast Asia. I would ask that the following statement be entered into the record, and in the interest of reserving time to answer any questions you may have, would like to take only a few moments to summarize the most important points of our policy.

Twenty years ago, in the wake of a painful withdrawal from Vietnam, there was considerable concern over American "staying power" in Southeast Asia, one of the world's most dynamic and challenging regions. Americans and Asians alike questioned the feasibility of the U.S. retaining robust forces so far from home in the face of regional difficulties, uncertain international trends, and domestic discord about the roles and responsibilities of America in the world. The setbacks in Vietnam triggered a profound national reflection on the reasons and rationale of the

U.S. security presence in Asia.

This national soul searching in the wake of the Vietnam war set the scene for a crucial display of bipartisan American leadership. A succession of Presidents in both parties, congressional representatives spanning the aisle, business leaders from corporate America to small start up firms, and military strategists from every service have all reached an inescapable conclusion about the relationship between Asia and America: Our security and prosperity are inextricably linked, and the mutual prosperity in the entire Pacific rests on an enduring U.S. security presence.

This national resolve to remain engaged and maintain a security presence in the region is based on clear global realities, not superpower fallacies. Southeast Asia is a region of strategic U.S. concerns and interests; critical sea and air lines of communication traverse the area. Much of our own international trade as well as the international commerce of our friends and allies transits these strategic passages.

The Southeast Asian region recently celebrated twenty years of relative peace and security in the aftermath of the Vietnam war. And with that peace has come one of the most dramatic periods of prosperity in world history. Asean, as a whole, is our fourth largest trading partner with two way trade on the

verge of surpassing \$100 billion and U.S. investment alone in the region exceeding \$20 billion. Even while the region experiences unprecedented growth and integration, there are clear indications that the security on which the "Asian miracle" has been built is still fragile.

Last year, the competing territorial claims in the South China Seas spurred increased tensions. And this year, the region watched with growing apprehension the escalating rhetoric and provocative behavior across the Taiwan Straits. In both cases, and indeed during other incidents spanning the last twenty years, the U.S. helped facilitate a return to calm, either as a direct result of a display of American strength and resolve (as in the Taiwan Straits) or as consequence of U.S. diplomatic efforts, as an "honest broker" or as a facilitator of multilateral dialogue (as in the South China Seas).

U.S. security strategy in the Asia Pacific rests on three main principles, or "laterals": 1) America's unilateral commitment to keep a substantial forward deployed force of about 100,000 in the Asia Pacific region, including maritime, land and air forces; 2) our bilateral engagement with treaty allies, such as Thailand and the Philippines plus bilateral security dialogues with critical regional actors, such as China and Indonesia; 3) and U.S. support for and participation in multinational security forum, such as the Asean Regional Forum.

This multi-layered strategy for engagement is designed to promote peace and stability by endeavoring -- in succession -- to prevent, deter, or defeat threats to regional tranquility and prosperity. The U.S. security presence is a visible demonstration of our commitment to allies and friends in the region; it supports overall regional stability; and the multinational training and initiatives we undertake with the various military forces in the region promotes transparency and confidence building. In the aftermath of the Cold War, our engagement strategy in Southeast Asia is less threat based and more designed to promote dialogue and trust in a region that will be increasingly critical to U.S. and indeed global security into the next century.

Testimony of: General Michael P C Carns, USAF (Retired)

Executive Director

Center for International Political Economy

30 May 1996, 1030 hours, Room 2200, The Rayburn Building

House Committee on International Relations

Subcommittee on Asia and the Pacific

Thank you for this opportunity to address this distinguished Subcommittee on Asia and the Pacific, House Committee on International Relations. You are inquiring into the vital questions of the Asian region at an important time. Stresses are building in the Pacific not unlike the front page concerns now gripping Europe, the Balkans, the Middle East and the Gulf. It is a very busy world these days...

We are struggling with the array of regional issues not only because they are by their very nature difficult--in some cases almost intractable--but also because the terrain is not as familiar.

We are undeniable products of our experience. We have learned the art of diplomacy and the use of military force under the tutelage of the Cold War. That experience is not as transferable as many of us would like to think. In the past, we pursued consensus building but, when impasse approached, we appealed to the higher good: successful containment of the Soviet Bloc. In working pacific security issues today, that unifying appeal is not germane. Second, the enormous accumulation of dialogue and personal relations that developed over the forty plus years of the Cold War facilitated acute issue resolution. Today, we are sitting down to resolve issues with unique national groupings, depending on the problem. And third, the Cold War was ideologically based, with large standing armies faced off against each other; skillful diplomatic efforts kept the confrontation nonviolent until economics ultimately resolved the question. Today, however, Asian differences are largely economically based, with military confrontation the exception rather than the rule.

What is the point? It is that our approach and our methods in managing our Asian affairs reflect much of our experience and style of the Cold War. Even our posture is much the same: roughly 100,000 uniformed personnel deployed in the Pacific. We seem to believe that the arrangements and alliances now existent should largely continue unchanged, or at best, undergo modest and evolutionary change.

For the near term, perhaps even the medium term, I think this will probably work. In fact, to change our approach in the Korean "set piece" would be foolish at this juncture. North Korea, operating in a very isolated environment learns and accepts matters very slowly. Sharp changes risk being misunderstood, introduce unneeded uncertainty, and could trigger unintended consequences, no matter how well intentioned our motives might have been. Constancy is certainly called for in this Cold War holdover; staying the course will ultimately resolve this stressful situation in a non violent manner, in my estimation.

However, elsewhere throughout Asia--to include Japan, I would suggest we consider a new vision of US military presence and our role. We need to recognize that new principles, policies, tools and techniques may be more effective in dealing with the regional strategy demands and concerns of today. With the politics and economics of communism discredited, Asian nations are no longer threatened by an external

ideological power. Their amazing economic development, accelerated by their limited need to fund their own defense, needs to be normalized. With globalization of relationships and trade, most everyone has a stake in any major issue.

Accordingly, rather than unilateral US regional security guarantees, we should advocate assumption of individual and collective self sufficiency. Rather than our being the major military force in the region, we should advocate that all nations contribute to providing a more balanced security capability. And whereas we are major agenda setters in the region, we should advocate a broad grouping of nations assuming much more of this responsibility.

A formal alliance is not necessary but a practice of insuring all parties are around the table when working a regional issue--any regional issue, even when they have no stake in it, will accelerate the growth of that broad reservoir of relationships and dialogue needed over the long term to resolve tough issues. Matters are moving in that direction now. ASEAN and ARF have developed well. Recent dialogue with European counterparts are widening the process. However, not everyone in the region is around the table as a participating partner and difficult problems are not yet on the agenda--and that is the direction matters need to move...with alacrity.

This policy of broad nation inclusion and dialogue for problem resolution must be matched by a policy of common cause, that is, when working common regional problems, there must be common regional commitment. That means each nation must bring balanced contributions to the table, whether it is fora, funds, food or forces.

There are many difficulties linked to such an approach.

First, it will require Asian nations that have looked to the US for working difficult issues to increasingly confront the problems themselves within the region. We would be creatively engaged when our interests were involved. We would likewise make it clear that we expect them to dialogue and find paths to resolving regional matters. This is not US disengagement; it is a logical maturation of our relationship that should, in the long run, result in much healthier ties.

I am reminded of the US-Philippine relationship. While stationed there in the late '80s and later as the Deputy US Negotiator for the US-Philippines Defense Agreement, I became convinced that our relationship would start to improve the day that we left...and not before. I believe that this is in fact what has happened. The Philippines matured quickly when left to their own devices and our relationships are significantly better than anytime in recent memory.

Next, the suggested approach would not be welcomed by China. The emergence of a much enlarged group of Asian nations successfully coping with and working regional problems would present a challenge to Chinese hegemonism on the one hand, and the

necessity for China to work regional issues multilaterally rather than one-on-one.' Such a regional construct would probably eventually leave China with no alternative but to join the dialogue process, moderating its own behavior and approach.

Third, it will probably require constitutional change in the case of Japan. Japan should not be forever insulated from assuming the normal responsibilities--and costs--of sovereign nations. Over fifty years have passed since the end of WWII. Japan is now a democratic nation with a robust capitalistic economy. It is a major world trader and has amassed enormous wealth. It should return to assuming the full array of international responsibilities, to include resolving the concerns of its neighbors through dialogue, confidence building measures, and long term relationships. Over the long run, a strong, balanced and responsible Japan is very much in the interest of the US.

A fourth criticism to this approach is that it would likely trigger area military modernization and additional armaments purchases by Asian nations. I believe it would; I believe it should; and, I believe all parties would be best served, including the United States. Why? Because it creates more confident nations who, in turn, must act judiciously, maturely and responsibly when working regional problems. From the US's standpoint, it could provide large amounts of excellent equipment to these nations at very competitive prices. This is distinctly to our advantage: common weapons systems lead to common ways of operations, which in turn facilitates coalition building when threats arise. Our experience in the Gulf, particularly Saudi Arabia, pertains. And, with a broader and more balanced capability in the Asian region, the US could assume a lower posture (other than in Korea until it is resolved), transferring these savings to investment in desperately needed force modernization and technological updating of existing capability.

Yet another major criticism of such an approach would be that it would reduce US flexibility in driving outcomes. Again, I believe that is true and I also believe we would be better served--as would they. Relying more on persuasion and less on power to build consensus and to achieve issue resolution in Asian matters would probably yield more lasting regional solutions and make the US a more welcome partner in the long run.

Finally, this would modestly diminish the United States' role in the region. This is a positive development, in my view, as regional protagonists find it necessary to cope with their own problems. It is also likely that problem resolution will be more difficult and protracted; this is normal, understandable, expected and healthy. Now is the time to enhance area relationships and problem solving skills; more difficult problems lie ahead.

Let us now briefly consider the utility of this security construct in addressing the many current issues facing Asia today.

The vector of China seems very transparent to me. After the crushing embarrassment China endured in the 19th Century at the hands of the British, they have resolved never to let history repeat itself. They have carefully done their homework and understand clearly that power matters--political, economic and military. They are in pursuit of significant sway in all departments.

Militarily, their decisions to sell selected weaponry and materials to South Asian and Middle East states is deeply worrisome and counterproductive to efforts to reduce proliferation of missile systems and weapons of mass destruction. The recent capture of a large weapons cache of Chinese weapons in the San Francisco area is illustrative of this behavior.

Economically, China has also behaved badly, failing to live up to various trade agreements and arguing that it is too difficult to comply with others. Not only has there has been no common cause by any major grouping of powers to dissuade them from such conduct, China has exploited such divisions. For example, they have threatened to cancel Boeing orders for French products should the US take certain trade actions. Their very conduct illuminates the path to effective policy: common cause among friends and allies--a path we have not yet chosen to pursue ourselves.

The willingness of recognized, cohesive and capable blocs of nations, Asia as well as elsewhere, to stand up to deviant Chinese behavior would constitute a significant moral and economic force to be reckoned with. Moreover, large scale exchange of information among the Asian nations would help to draw a sharpened picture of what was moving in and out of China and where it was destined. These actions would provide a strong incentive for China to modify its behavior accordingly.

Next, a few comments on the resolution of the region's many territorial issues. Asia has them everywhere, from Northeast Asia to the South China Sea. As Japan seeks to establish a 200 mile economic zone, it has included the Takeshima islets within its western arc, setting up a confrontation with South Korea which considers them under their control. To its north, Japan has the unresolved issue of the Northern territories with Russia. To its south, Japan has a territorial dispute with China over the Senkaku Islands in the East China Sea. In the South China Sea, the Paracels and Spratleys have numerous claimants and occupiers, in whole or in part. Involved are: China, Malaysia, Indonesia, the Philippines, Taiwan, Vietnam and even Brunei. Left unmentioned is the problem of Taiwan vis a vis China.

Many of these territorial disputes have such long and murky histories that bilateral negotiations are not likely to yield lasting results. If these claims could be tackled by the community of nations in an extended dialogue, the chances for a multilateral solution would be enhanced.

Finally, let me provide additional views on a major issue that is at the same time, local, regional and global: non proliferation. While my testimony advocates military self sufficiency between and among Asian nations, I support it in the conventional context, not their possession nor use of weapons of mass destruction. The US is moving away from such weaponry and, I believe, would welcome their eradication if all nations could be convinced to do so and effective safeguards were in place. Such conditions are not yet available and we should spare no effort to bring them about. Meanwhile the deterrence strategy appears to be the best course of action for now...but the clock is ticking on its comprehensive effectiveness...

Nuclear proliferation has received much attention and effort. The DOD deserves great credit for their policies and initiatives in this area although the results are not as positive as we would like. Of major concern is chemical and biological proliferation, particularly the latter. With the advance of chemistry and biology technologies, their use as weapons of mass destruction becomes easier and their control more difficult. Rogue nations and terrorist organizations have the potential to acquire, threaten, or even use such weapons, possibly without our knowledge until it is too late. The constant drumbeat of Under Secretary of the Navy Richard Danzig on this concern merits a more attentive hearing.

This is a first order problem. Today's conventional methods rely mainly on intelligence for adequate warning. This approach is, in my judgment, woefully inadequate and very likely to lead to an intelligence failure--one largely not their fault. . The task of discovery by intelligence pits very limited resources against a ubiquitous global problem that is not only growing but is increasingly beyond the purview of governments as new, potentially dual use chemical and biological products and processes move to the open market. The Japanese subway tragedy pertains.

A more likely path to success lies--again--in a new vision: substantially broadening the constituency and the technology made available with the information age to vastly increase potential for discovery. International proliferation developments lend themselves to forecasting by exploiting advanced computer technology and extensive cross referencing of widely available open-source data. These growing information technologies, capabilities and techniques can monitor vast amounts of open source commercial activity to log, store and cross reference the sale and movement of missile, nuclear, chemical and biological weapons components, equipment, and technology . Probably the most comprehensive database on such commerce is maintained by the Center for Nonproliferation Studies at the Monterey Institute of International Studies.

To sum up, new situations call for new approaches. We have very successfully coped with the major threat of communism through vigilance, an enduring alliance of nations seized with common cause, and new approaches to military preparedness. New thinking is once again required, particularly in Asia, to cope with pervasive

regional stresses. While we should maintain the capability to deal with global threats, we should endorse the vision that regional nations must become more self sufficient in providing for their security and associating themselves in common cause to solve regional problems. The United States is prepared to facilitate but must not bear the primary burden for regional problem resolution. With this approach, Asia would be a more confident and self assured group of nations, coping with their regional problems and building enduring solutions. The United States would benefit with better relationships in Asia and a stronger group of friends and allies. Should major stresses grip the area, the region's new individual and collective security posture would form the basis for prompt and effective coalition building to confront and successfully resolve any threat to our community interests..

STATEMENT ON REGIONAL SECURITY IN SOUTHEAST ASIA
 SUBMITTED BY DONALD K. EMMERSON (UNIVERSITY OF WISCONSIN-MADISON)
 TO THE SUBCOMMITTEE ON ASIA AND THE PACIFIC
 COMMITTEE ON INTERNATIONAL RELATIONS
 HOUSE OF REPRESENTATIVES
 104TH U.S. CONGRESS
 WASHINGTON, DC
 30 MAY 1996

What can I concisely but usefully say to Congress in mid-1996 about regional security issues in Southeast Asia?

First, the United States has a clear and compelling interest in the regional security of Southeast as well as Northeast Asia.

Second, current political and economic conditions in Southeast Asia constitute an unusual opportunity for the United States to pursue its interest in regional security not just unilaterally and bilaterally but multilaterally as well.

Third, in Southeast Asia as elsewhere, Congress should treat the likely effectiveness of a proposed policy and its impact on other policies as important criteria for adopting it or not.

A Clear and Compelling Interest

Northeast Asia typically overshadows Southeast Asia on American security policy horizons. There are good reasons for this.

Northeast Asia is a thicket of consequential questions: Will the world's most populous country and dynamic major economy, China, play a constructive or destructive role in East Asia? Will the world's second largest economy and America's most important ally in the region, Japan, be able to assume greater responsibilities for managing the peace in East Asia without disengaging from the United States or reawakening regional fears of former hegemony? Will North Korea implode or explode, can its nuclear ambitions be thwarted, and on what terms will Korean unification occur? How

can the tensions between China and Taiwan be managed? What will happen when Hong Kong reverts to China next year?

By comparison, the regional security of Southeast Asia appears to be an accomplished fact. No external enemy threatens Southeast Asia, not even China. Southeast Asian leaders still believe that China's claim to the South China Sea is negotiable, a view kept alive in part by Beijing's own alternation between accommodation and intransigence. Territorial disputes among Southeast Asian states remain sources of possible future conflict. But given how many of them there are, what is remarkable is that they have generated so little overt intra-regional tension. Interstate flare-ups have occurred, for example, between Singapore and the Philippines over the former's execution of a Filipina maid, but these are notable not for their intensity but their rarity.

Historically in this context the Association of Southeast Asian Nations (ASEAN) has enjoyed a triple success: preventing a repetition of the intramural strife that marked Southeast Asia in the 1960s; strengthening the resilience of its member economies against communism in the 1970s, despite the defeat of the United States in the Second Indochina War; helping in the 1980s to negotiate a settlement of the Third Indochina War that eventually restored Cambodian sovereignty; and now, in the 1990s, enlarging itself prospectively to integrate the rest of the region in a single though informal regional security regime.¹

When it comes to deciding what to report, our media managers have rewritten the adage that no news is good news: In their sensation-seeking eyes, good news is no news. Accordingly, compared with coverage of the Northeast, Southeast Asia looms exceedingly small on newspaper pages and the evening news. It is easy to infer from this lack of attention the lack of any clear or compelling American national interest in the region.

¹ Indonesia, Malaysia, the Philippines, Singapore, and Thailand founded ASEAN in 1967. Brunei joined upon acquiring its independence from Britain in 1984. Vietnam became the Association's seventh member in 1995. ASEAN has stated its intention to add the remaining three countries of Southeast Asia --Cambodia, Laos, and Burma (Myanmar)--by the year 2000.

The inference is mistaken. The stakes, including America's stake, will probably always remain higher in the Northeast. Yet half a billion people live in Southeast Asia. The region flanks key waterways between the Pacific and Pacific Oceans. And notwithstanding the booming of China at double-digit rates, the fastest growing economies in the world are not in Northeast but Southeast Asia: For several years now, the average Southeast Asian national economy has been growing more rapidly than its Northeastern counterpart. By this measure in 1995, for example, Southeast Asia grew twice as fast: 8.0 percent compared with Northeast Asia's 4.0 percent.²

In Southeast Asia America has no market the size of China's, not ally as vital as Japan, and no partner at greater military risk than South Korea or Taiwan. But Southeast Asia as a potentially integrated market will become more and more attractive to American investors and traders as ASEAN expands and deepens the ASEAN Free Trade Area (AFTA) in the context of economic liberalization under the Asia Pacific Economic Cooperation (APEC) forum and the World Trade Organization (WTO). (Not coincidentally, the Philippines and Singapore will host key meetings of the latter frameworks, respectively, in November and December.)

And while Japan's economic involvement in Southeast Asia is considerably broader and deeper than that of the United States--unsurprising given Japan's lack of natural resources and greater proximity to the region--America does have a major and profitable stake in the area's dynamic economies. Although investment figures are notoriously difficult to compare, there is at least an argument to be made that in certain key economies at the core of the region--Indonesia, Malaysia, and Singapore--the cumulative value of America's investment may actually rival Japan's.

The exit of American troops from Clark Field and Subic Bay in the Philippines dramatically shrank the military presence of the United States in Southeast Asia. Yet the region's archipelagoes still constitute a kind of strategic turnstile through which the

² Barry Wain, "Surging Economies in East Asia Have Room for Further Long-Term Growth, Study Says," The Asian Wall Street Journal Weekly, 29 April 1996, p. 5.

Seventh Fleet would have to move quickly in response to renewed hostilities in the Persian Gulf--not to mention the dependence of America's chief East Asian ally, Japan, on keeping these sealanes open for commercial use.

Understandings have been reached with most of ASEAN's members to permit the servicing of American air and naval craft at locations such as Surabaya (Indonesia) and Lumut (Malaysia). Perhaps two hundred military personnel are stationed in Singapore under a special arrangement with that ASEAN member to facilitate this new and dispersed post-Subic-and-Clark profile of "places not bases." Alongside its economic stake in Southeast Asia, the United States does have an interest in helping Southeast Asians keep their region secure.

Finally, as noted in the next section, the value of ASEAN to American policy extends beyond Southeast Asia to encompass, however tentatively or potentially, the truly worrisome issues of regional insecurity that are so evident in Northeast Asia.

Advantages and Limitations of Multilateral Action

Compared with the dangerous uncertainties that characterize Northeast Asia, the relative security of the Southeast appears to warrant a policy of benign neglect: "If it ain't broke, don't fix it." But this is short-term thinking. In the aftermath of two costly and exhausting wars--the Cold War globally and the Third Indochina War locally--the more rational lesson to be drawn is: "If it ain't broke, see what can be done to make sure it don't."

A second and related lesson for American policy toward Southeast Asia follows from the region's economic rise and its leaders' long-standing habit of cooperation within ASEAN: Without abandoning unilateral options or neglecting bilateral relations with the region's separate states, if American security policies in Southeast Asia are to succeed, they must have a multilateral dimension.

Key upcoming dates in this regard are 23-25 July in Indonesia. On 23 July the foreign ministers of the nineteen member states of the ASEAN Regional Forum (ARF) will meet, as they have annually elsewhere in Southeast Asia since 1994. Immediately thereafter,

on 24-25 July, ASEAN will hold its annual post-ministerial conference with its dialogue partners, including the United States.

The State Department is now planning the position to be taken by the United States at these meetings. Here are some thoughts that may prove useful in that context:

First, the United States should reiterate its support for ARF. Presently no other regional framework exists for the prevention of conflict in East Asia.

Second, since this will be the first ministerial meeting of ARF in Indonesia, the United States should single out for acknowledgment the efforts made by the Suharto government on behalf of East Asian regional security. Particularly worth highlighting is Indonesia's recent decision to join the Korean Peninsula Energy Development Organization (KEDO).

KEDO is a fragile enterprise. It could be wrecked by violent events on the Korean peninsula. But few have recognized its importance as an experiment in American-initiated multilateral action appropriate to a post-Cold War era--a time when the United States no longer leads a global coalition against a common enemy and Congress has ceased to be willing to commit resources to diplomacy commensurate with America's superpower status.

In 1995 the six ASEAN members (excluding Vietnam, which only joined the Association that July) made a total contribution to KEDO of a bit less than \$1.8 million. They are expected to continue that assistance in 1996. The sums are minor but the symbolism is not, especially considering the previous inclination of most ASEAN states to regard the risk of war on the Korean peninsula as spatially too far off to affect them. Also implicit in this involvement is an understanding of the importance to Southeast Asia of American participation in East Asian security, including the need to maintain the U.S.-Japan alliance in the face of possible conflict in Korea.

In March of this year the Indonesians took a further step in becoming the first Asian state to join KEDO since the organization was originally established by South Korea, Japan, and the United States. (The other joiners to date are Australia,

Canada, Finland, and New Zealand.)

In size, location, and resources, Indonesia is the most important Southeast Asian state. Its vast population, relative poverty, and rapid economic growth make it strategically the China of Southeast Asia. Uncertainty surrounding the succession to Indonesian President Soeharto further underscores the importance of Indonesia as a prospectively constructive but potentially destabilizing actor in East Asia.

The evidence on this score to date is encouraging: Indonesia played a key role in resolving the Third Indochina War. More recently it has sponsored a series of workshops on the South China Sea that have at least kept the six rival claimants to the Spratly Islands talking with each other. Also worth noting are Jakarta's participation in Bosnian peace-keeping and, most recently, its willingness to sign a security agreement with Australia. The latter step broke with precedent, and risked Indonesia's reputation for nonalignment, for the sake of stability at the southern end of the Western Pacific.

Third, prior to the ARF and ASEAN meetings in Indonesia, the United States should quietly explore with ASEAN leaders, among other Asians, the best course for ARF in the light of rising concerns over China.

Some Americans have suggested that the U.S. try to mediate the Spratly imbroglio. Such an overtly interventionist role by the U.S. is premature. It would be resisted by China and would not be welcomed by ASEAN. Others in Washington have advocated the building of a grand Asian coalition, under American leadership, against China. That too would be unwise.

But the time has come to encourage the ASEAN states to focus ARF more constructively on the range of actual security issues in East Asia. American-Singaporean cooperation on maritime search and rescue planning, one of ARF's several projects, has not been useless. But such small-scale activities on noncontroversial topics cannot forever dominate ARF's agenda.

Fourth, the U.S. should offer technical assistance in exploring and mapping the Spratlys to determine just how petroliferous they are, but only in return for the agreement of all six claimants--

Brunei, China, Malaysia, the Philippines, Taiwan, and Vietnam--to cofound and cofund a Spratlys Energy Development Organization (SEDO). Other cofounders/cofundors (in addition to the U.S.) would include Japan and South Korea, given their energy dependence on hydrocarbons shipped through or originating from the South China Sea. The prospect of massive American investment in the Natuna gas fields west of the Spratlys make this proposal especially timely from an American standpoint.

Fifth, the U.S. should quietly encourage Taiwan to cease merely replicating China's sweeping claims to the South China Sea. By opening itself to constructive negotiations over the Spratlys, perhaps at the next Indonesian-sponsored workshop, Taiwan could help move the dispute closer to a settlement (or toward suspension for the sake of joint development). Such a move might also create a greater willingness to ASEAN's part to give Taiwan at least some status inside ARF and ARF's "Track II" (semiofficial) affiliate, the Council for Security Cooperation in Asia Pacific (CSCAP). That might in turn conceivably increase by some small increment the prospect of an equitable long-term accommodation between Taipei and Beijing.

Sixth and finally, the U.S. should encourage ARF to proceed still farther down the path it has already charted toward the implementation of various confidence- and security-building measures (CSBMs) in East Asia, including improved force transparency in the form of advance notification and white papers. Apart from prospectively alleviating the risks that are so apparent in Northeast Asia, such steps could help to reassure worried observers that the ASEAN states' current military spending spree will not become a destabilizing arms race. In this connection it would be helpful to diversify the ARF process beyond the respective members' foreign ministries by involving defense ministries and their staffs as well.

Multilateral frameworks such as ARF will never replace the value of bilateral or unilateral security policy in Southeast Asia. But the sort of preventive diplomacy that the Forum encourages is appropriate to a region where there are no security threats that would demand a more robust response. However, as the Forum expands--India is likely to be the next new member--the need for a more narrowly focused body that can help reduce tensions in Northeast Asia will become more and more apparent. In this

context, ASEAN's leaders may have to accommodate themselves to an evolution of the Forum that they, despite having founded it, will be unable to determine. New frameworks, smaller than the increasingly unwieldy ARF though possibly nested within it, may have to be developed for Northeast Asian security issues in particular.

Effectiveness as a Policy Criterion

Americans have competing commitments to different national values. Notable among these are military security, economic prosperity, political democracy, and resource sustainability. These values may be complementary. The characteristically American faith in what I have elsewhere called "the Virtuous Spiral" holds that free markets through economic growth create free polities that do not fight each other, thus spreading world peace, which is itself a precondition of further development and, in turn, more democracy, and so on to the rising betterment of all. Yet it does not follow that security, prosperity, and democracy will always be complementary values in American foreign policy, not to mention the possible environmental cost of generalizing such linear optimism worldwide and extrapolating it in linear fashion into the future.

Inside the Beltway, more often than not, these values are in conflict as different lobbies struggle to make American policy priorities conform with the paramountcy of this or that preferred value. Open as Congress is to public opinion and group pressure, this conflict is especially intense on Capitol Hill.

There should be no single American foreign-policy hierarchy of such values for all times and countries. However much it may offend moralists for whom nothing is more important than denouncing and punishing violations of human rights wherever they may occur and whoever may be committing them, each country with which America deals has a unique profile of relevance to American interests--not just the interest of Americans in promoting democracy and respect for human rights, but our concomitant interest in a more secure, prosperous, and environmentally sustainable world.

The latest challenge to American policy priorities for Southeast Asia is the harassment of the democratic opposition in Burma

(Myanmar) undertaken in recent days by the military junta in that country. Congress is now being asked to pass legislation that would extend steps previously taken by the United States to isolate the Burmese economy. The most extreme version of this extension would have America declare an embargo on all trade with Burma and all investment there.

A question that should be asked and answered before such sweeping legislation is adopted, however, is this: What is the likelihood that the proposed quarantining of the Burmese economy will succeed in democratizing that country? Some may argue that the answer to this question is irrelevant, that the only thing that counts is the implementation of American outrage, regardless of efficacy. But if that is so, then Congress should explicitly acknowledge the self-referential character of such legislation: that in this case Congress deems it more important for America to feel good than do good.

I am not recommending that no concrete measures be taken to communicate American anger to Rangoon (Yangon). Nor do I mean to imply that nothing America could do could help to alleviate the plight of the democracy movement in Burma. Nevertheless, by the criterion of effectiveness, it seems to me reasonable to suggest that the U.S. simply does not have the power unilaterally to democratize Burma. On the other hand, the U.S. government could hurt the Burmese economy in the short run by, for example, demanding that Unocal scale down or suspend its pipeline project, a major investment in Burma's energy sector.

Japan's decision to resume limited aid to Burma following the release of Aung San Suu Kyi, coupled with Japanese willingness to meet and talk with junta members, may have given Tokyo some modest influence in Rangoon. (Since 1993 Congress has refused to allow an American ambassador to be sent to Burma.) Also important is ASEAN, whose leaders have tried not to isolate Burma's rulers but to engage them. Were Congress to consult them on Burma policy, ASEAN's leaders would probably cite the logic of the Virtuous Spiral: that the best guarantee of democratization in Burma is that country's economic development and integration into the regional and world economy, not its ostracism.

Historically no regime in the world has shown itself more willing to disaffiliate and hunker down. During the Cold War Burma not

only refused to align itself with East or West; it walked out of the nonaligned movement as well. That record does not inspire confidence in the present junta's vulnerability to rejection.

Congress should also take into account competing American objectives in Burma, including the fact that previous steps to curtail Burmese-American relations have not prevented Burma from becoming the world's leading source of heroin. In excess of three-fifths of the heroin entering the U.S. comes from Burma. The devastating effect of this import on America's inner cities at least raises the question: Would a more measured response to the generals' effort to suppress the democracy movement in Burma facilitate drug control in this instance, or not? (Congress now refuses to permit even anti-narcotics aid to Burma.) Relevant too are the regional security implications of possibly driving Burma into a closer military relationship with China.

Personally I would prefer not to see an across-the-board isolation of Burma that seems destined to fail twice: by failing to moderate the junta's behavior while depriving the U.S. of any remaining leverage it might have. But whatever Congress decides to do, this case raises yet again the need for America to encourage a multilateralization of responses to human rights violations in Southeast Asia. Whatever such a multi-country response may lack in moral fervor and sweeping scope it may well make up for in effectiveness. That possibility should at least be explored.

One last and modestly encouraging note in this regard: In recent days, unlike its fellow ASEAN members, Thailand has criticized, if mildly by American standards, the latest harassment in Rangoon. The head of the opposition political party in Malaysia has spoken out more vociferously against the Burmese junta's effort to block democracy. Modest but real moves in recent years in some Southeast Asian countries toward more open politics and freer communication, trends that are in part attributable to prior economic growth and the rise of a middle class more willing to defend human rights, suggest that whatever the U.S. does or does not do, time is not on the side of the generals in Rangoon. But if this is true, it behooves Americans to take a longer view, balancing anger with patience.

Commitment and Capacity

A key underlying issue not only in Burma but throughout Southeast Asia is the matter of American commitment and therefore American leverage. American protestations of ongoing interest and involvement are not made more credible by Congressional mandates to cut back the resources available for U.S. diplomacy in the region.

In this light, the closing of consulates in Medan, Indonesia, and Cebu, the Philippines may in future appear penny wise but pound foolish. The cost may turn out to be especially great if the Indonesia-Malaysia-Thailand economic growth zone--linking Medan with Pinang and Phuket--and its counterpart ASEAN Economic Growth Area (EAGA)--tying the southern Philippines and northern Indonesia with Brunei and eastern Malaysia--succeed in opening opportunities for investment that Americans could take advantage of. For a key purpose of American diplomatic eyes and ears in Southeast Asia after the Cold War is surely to promote American investment and trade. Meanwhile, inside the State Department, Foreign Service Officers labor to meet increasing demands with fewer staff and glaringly inefficient and obsolete computer equipment.

The good news is that Southeast Asian regional security is in decent shape and that multilateral tools for helping to keep it that way are becoming available and being tested. The bad news is that Americans cannot help to keep the peace in Asia in the 21st century without the wherewithal to do so.

U.S. House of Representatives
Committee on International Relations
Subcommittee on Asia and the Pacific

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Testimony by James Clad,
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May 30, 1996

Thank you for this opportunity to review a few of Southeast Asia's regional security issues.

A wide consensus exists that Southeast Asia is now more secure, more prosperous, and more at peace within mutually acknowledged borders than at any moment in the contemporary era.

Much of the credit for this result must go to our country. As Singapore's foreign minister S. Jayakumar said last month in a lecture at Georgetown University, the United States has provided crucial "breathing space" for Southeast Asia, both during and after the Indochina wars.

This breathing space enabled most of the original five member nations of ASEAN to secure their borders, eliminate insurgencies, and lay the groundwork for a sustained record of economic success unmatched in the developing world.

That said, there is today in the region a sense of an ending of an era. For thirty years, a remarkably durable set of Southeast Asian leaders have consolidated both their personal power and their countries' position within a regional environment characterized by

(a) a focused, attentive U.S. diplomacy and

(b) an internally preoccupied China and by other adjacent powers only modestly capable of projecting military power.

In Southeast Asia today, just as elsewhere, there is even a certain nostalgia for the Cold War era — when the divisions which set the Indochinese states apart from ASEAN at least managed to keep major outside powers both at bay, and in balance. The Cambodian crisis, for example, served to reinforce a benign security climate within the ASEAN.

But the mood is different today. Each of the preconditions for earlier stability – focused U.S. policy, preoccupied adjacent powers, and durable regional leaderships – now seems vulnerable.

China is watched very warily but needs to be accommodated whenever the U.S. appears inattentive.

Today you are hearing considerable testimony both on U.S. diplomacy and on the special question of China's intentions in the region.

U.S. POLICY IN SOUTHEAST ASIA. In the last year the Southeast Asians discern a distinct improvement over the 1993 to mid-1995 period, when the Clinton Administration's multiple agendas in Asia seemed to invite misunderstanding, bewilderment, confusion and even some antagonism from old friends in the region.

Much of the credit for the improvement, in the view of many Southeast Asians, must go to the policy cohesion and strategic vision prevailing within the Department of Defense. This has helped to arrest, to some extent, a sense of free fall which Southeast Asians had detected in U.S. attentiveness to their region.

Despite this, there remain some quite well founded doubts about American staying power in the region, and in American attentiveness to the region.

OTHER OUTSIDE POWERS IN SOUTHEAST ASIA. The major powers adjacent to Southeast Asia are considerably more assertive than they used to be. India is one example. But in particular we now must contend with the indisputable fact that China, which once sought American power to counter the Soviets, now quite plainly wishes to see U.S. power decline in the Western Pacific.

Much of the testimony today turns, in one way or another, on how to accommodate a steadily more assertive China in Southeast Asia. China casts a long shadow into a range of regional issues, such as the ASEAN Regional Forum (ARF) process; the expansion of ASEAN membership; the South China Sea disputes; and the acquisition of more modern weapons systems by Southeast Asia's militaries.

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LEADERSHIP TRANSITIONS. I want to devote the remainder of my testimony to the last issue – the passing from the scene of the most important single source of Southeast Asia's recent continuity and cohesion – a set of remarkably steady leaderships.

The contribution of resilient leadership structures in Indonesia, Malaysia, Singapore, and Thailand to an orderly regional security climate cannot be over-emphasized. Even the

Philippines, after the disarray of the Marcos and Aquino years, is a positive security provider in the region in recent years.

Is there a risk of this changing?

To an extent which many in the U.S. fail to realize, the consensus holding the loose ASEAN regional collaboration together results from a coincidence of outlook among ASEAN leaders, and from a comfort level achieved among them over decades of patient work.

Much of the credit for what is sometimes called the "the ASEAN Way" – by which is meant an easy familiarity of the regional leaderships with one another – must go to Singapore, which has invested much effort into familiarizing up-and-coming ASEAN politicians with one another.

But all of this hard work is now becoming more hostage, inevitably, to a generational changing-of-the-guard.

INDONESIA presents the most compelling picture of this trend. Recent weeks have seen intense activity as the passing of the president's wife in April has focused attention on his family's disproportionate influence in commercial life and on the need to prepare for a successor to the aging Suharto, 73, in power now for thirty years.

Indonesian elections are carefully stage-managed affairs, with tightly controlled electioneering by closely monitored political parties. The next one is 1998, but intense maneuvering has begun within the heavily influential military, and in the organizations grouping Indonesia's mostly moderate Muslims.

The biggest problem is that Suharto's political skills have focused for more than three decades on identifying, and removing, challenges to his authority; he is ill-prepared to put a process in train that will displace him. Remember: this fourth largest nation in the world, and most numerous Muslim country, has had just one transition in its fifty years of independence. The result was not pretty.

A similar issue, though more easily contained, exists in MALAYSIA, where prime minister Mahathir Mohamad has been in power for 15 years. An important meeting of the ruling party, UMNO, occurs in October, at which time important deputy leadership positions will be filled. While Mahathir shows little sign of wishing to yield the premiership to a successor, the institutionalized mechanism of leadership transition in the UMNO at least promises a comparatively smooth transition – when it occurs.

In THAILAND the biggest transition issue hanging over a society now fitfully democratizing (which means carving out more space for civilian parliamentary government vis-a-vis the Thai military), is the sensitive question of royal succession.

Now celebrating the fiftieth year since King Bhumipol's coronation, Thais know full well that the King's crucial mediating role between military factions (seen so vividly during the May 1992 crisis) will not be easily replicated as and when he departs from the scene. With his health now thought to be poor, the King has given the Thai monarchy immense prestige during his reign. But major doubts hang over the ability of the Crown Prince to fill his father's shoes, and much speculation turns on the readiness of the Thai military to accept a younger princess as monarch instead.

Even SINGAPORE, which faces an election later this year, must also expect an inevitable passing of decades-old leadership. Since the 1950s, Lee Kuan Yew has led the small city-state and has groomed an impressive group of younger generation People's Action Party cadres. But Singapore's extreme vulnerability to even minute shifts in the political climate within the region means that confidence could fall if major transitions in neighboring countries do not go well.

The PHILIPPINES, now happily into strong economic growth and a consolidating political system after the upheavals of the 1970s and 1980-s, faces uncertainty in the looming 1998 presidential election. President Ramos constitutionally cannot run again; any successor must accept that he or she will not muster a majority of votes cast: the constitution does not provide for a run-off contest among the two top-polling candidates. Ramos himself garnered only 23% of the vote, a recipe for instability.

Other ASEAN states also face uncertainty. VIETNAM's aging leadership, while criticized for its authoritarian temperament, at least has a healthy understanding of the limitations of its relationship with China. The new leadership may be tempted to seek too much freedom of maneuver. And BURMA, likely to gain admission into ASEAN before the new century, also faces potentially explosive leadership changes as its repressed opposition seeks outlets. Even tiny, oil-rich BRUNEI, now ruled by an absolute monarchy, may have to change.

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New leaderships imply a period of adjustment; difficult transitions will slow multilateral security processes such as the ARF. In some circumstances, openly contested leadership struggles could witness a revival of bilateral issues within the ASEAN area, issues long dormant but never solved in the long period of stability after the late 1960s. These include secessionist movements and border disputes.

It will require an extra dose of care in U.S. diplomacy to ensure that we are alert to the emerging new political faces. This means redoubling efforts to resume the type of regular contact which for which the U.S. was known in earlier decades – contacts which included far more regular visits by members of Congress to the region.

Southeast Asian business dynamism, and its continuing strategic resource and maritime importance to the United States make these recurring contact imperative to our own interest, all the more so in a time of transition.

Thank you.

Written Statement
(for the record)

Testimony of Ralph A. Cossa
Executive Director, Pacific Forum CSIS
Honolulu, Hawaii

before the

Subcommittee on Asia and the Pacific
House Committee on International Relations

May 30, 1996

Mr. Chairman, distinguished members of the House Committee on International Relations Subcommittee on Asia and the Pacific, it is a great pleasure and privilege for me to be able to offer this written statement and to present my personal views on Southeast Asia regional security issues before this Subcommittee. While I will focus my comments on Southeast Asia, I will periodically make reference to events in Northeast Asia in passing, since developments in one part of Asia invariably impact the rest of the region.

I realize that I do not have to explain the economic or geopolitical importance of the Asia-Pacific region to this panel. Suffice it to say that the Asia-Pacific region is today, and likely will remain, one of the most economically and politically vibrant regions in the world; America's national security interests will remain inextricably linked to this vital region.

OVERVIEW

The end of the Cold War has coincided with the dawning of a new, more peaceful and prosperous era throughout Asia. Democracy has taken root in the Philippines, South Korea, and Taiwan, and continues to evolve elsewhere, prompted in part by the economic miracle that is bringing increased prosperity to the region. The nations of Southeast Asia continue to sweep most of their historic rivalries under the rug in the name of ASEAN unity and have created a new forum -- the ASEAN Regional Forum (ARF) -- in order to engage all their Asia-Pacific neighbors, including China, Japan, and the U.S., for the first time in structured dialogue on broad-ranging Asian security issues. Vietnam has joined ASEAN and the ARF, and the long-overdue normalization of relations between the U.S. and Vietnam has finally occurred.

China's emergence, politically and economically, also contributes to a general sense of well-being in the region. China seems irreversibly committed to economic

reform and to a capitalistic-style market system, albeit under the rubric of "socialism with Chinese characteristics." China's leaders, at last year's ARF and Asia Pacific Economic Cooperation (APEC) meetings, signalled an increased willingness to participate in multilateral dialogues and have made significant gestures demonstrating China's commitment to economic integration and the peaceful settlement of disputes.

On the surface, the security situation has never been better. Beneath the surface, however, a great deal of uncertainty remains about what the future will bring. While the prospects for conflict seem low in the near term, the potential for conflict remains and could grow, especially if the United States fails to remain effectively engaged in the region. America's past leadership in, and security commitment to, the Asia-Pacific region have been instrumental in creating the secure environment in which the above-described positive trends and developments have been able to emerge and prosper.

The U.S. has a particularly important role to play in the future as well. If the U.S. fails to properly exercise the leadership role it has earned and enjoyed thus far in Asia -- a leadership role that is accepted if not welcomed by the overwhelming majority of its Asian neighbors -- or if the current relatively benign security environment lulls Americans (and Asians) into a false sense of complacency, this could sow the seeds for future instability or uncertainty in this vital region.

POTENTIAL FOR CONFLICT

Please note that I stated earlier that the current era of peace and prosperity coincided with the end of the Cold War. In many respects, the positive developments just described began to take hold during the Cold War and blossomed independent of its end. In like manner, however, Asia is also the home of tensions and disputes that predate the Cold War or have developed independent of the old bi-polar struggle.

As we survey the Asian landscape today, we still see contested borders between India and China, China and Vietnam, China and Russia, and among several of the ASEAN states, to name but a few of the competing claims. We see the Spratlys, Natunas, and Senkakus (and other contested islands), an unsettled and unsettling Burma, a hopeful but still potentially explosive Cambodia, often-heated differences of opinion between Britain and China over democratic reform in Hong Kong in advance of its planned 1997 reversion, and -- potentially most explosive of all -- a growing independence movement on Taiwan which threatens to disturb the careful equilibrium provided by the current "one country, two systems" formula. To the north we have, in the near term an even more potentially explosive Korean peninsula and the possibility of a resurgent, highly nationalistic Russia. We also see unprecedented economic growth that, while benefiting many, is creating broad "have versus have-not" gaps between and within nations.

As one examines current trends and developments in Asia, additional security questions and concerns also arise. Some of the most prominent potential areas of concern are highlighted in the paragraphs that follow.

CHINA: China is the biggest wild card, given the uncertainty that surrounds the succession issue as the last of the long marchers depart the leadership scene. While many, myself among them, believe that the next generation of leaders is already essentially in place and that Deng's death will not result in the political turmoil so many are predicting, legitimate concerns remain.

Over the longer term, as China's military modernizes and its power projection capabilities grow, its potential to threaten its neighbors increases as well. This is already adding to regional anxieties; a fact China too often, and too casually, dismisses. China asserts that it has no hegemonic ambitions and should not be considered a current or future threat. Even if these statements were accepted at face value -- and Chinese actions on occasion make this difficult -- China's sheer size and potential capability will remain a source of concern.

Many in the U.S. tend to dismiss the China "threat" as insignificant in relation to U.S. military power and I do not dispute this . . . from a U.S. military perspective. We must recognize, however, that nations living in close proximity to China have a far different perspective. It is impossible for them to dismiss or politically ignore China's growing military capabilities. One of the primary reasons behind the creation of the ARF was the ASEAN desire to positively engage China in a broad regional forum lest they otherwise individually and even collectively become overwhelmed. Active participation by the U.S., Japan, and others is vital to achieving this objective.

Regional concerns about an emerging, more powerful China must be addressed through increased cooperation and interaction and through greater military transparency -- the recent Chinese White Paper on Arms Control and Disarmament being a step (albeit a small one) in the right direction.

South China Sea Dispute: As regards the South China Sea, Chinese officials maintain that the ongoing Spratly Island territorial dispute is an "internal" problem involving the various claimants (Brunei, China, Malaysia, the Philippines, Taiwan, and Vietnam) and that "external actors" (read the U.S.) have no business involving themselves in this dispute. In my view, the Chinese are only half right!

The peaceful settlement of the South China Sea territorial dispute remains the responsibility, first and foremost, of the involved claimants. In the final analysis, they must resolve the problem among themselves. This in no way implies, however, that a continuing failure to solve the problem does not have international implications. Clearly, a failure to peacefully resolve the dispute, especially if it leads to renewed military actions by any one or more of the claimants, would have much broader regional, if not

global consequences.

Claimant concerns center around issues of sovereignty and economic benefits to be derived from the exploitation of the disputed region's real and potential natural resources. Non-claimant concerns evolve around freedom of navigation through this important commercial sea lane. The implications of conflict for nations like the U.S. go far beyond concerns over freedom of the seas, however. Given the integrated nature of the world's economy, and the increasingly important position the vibrant economies of Asia play in the overall global picture, a disruption of the currently stable Asian security environment could have serious impact on the economic interests of nations far removed from the actual scene of conflict.

A use of force by the PRC in the contested territories would have a particularly far-reaching destabilizing affect. The impact would be greatest on China's current policy of constructive engagement with its Southeast Asian neighbors. PRC relations with the United States (among others) would also be severely disrupted, as could be U.S. relations with Japan and other regional friends and allies if disagreements developed over how best to respond to any PRC provocation. For these and other reasons, it seems clear that it is in no one's self-interest, and least of all China's, to resolve conflicting claims militarily -- especially since China's neighbors continue to view PRC actions in the South China Sea as a "litmus test" for determining China's long-term intentions.

PRC Foreign Minister Qian Qichen's announcement at last year's ARF meeting expressing China's willingness to peacefully resolve lingering disputes through multilateral dialogue in accordance with international principles such as the U.N. Law of the Seas Convention was warmly received in Southeast Asia. But China's deeds have yet to match its words. The shadow cast by the PRC structures constructed last year on Mischief Reef (also claimed by, and in close proximity to, the Philippines) stands in sharp contrast to the words being expressed by Chinese officials. While the ASEAN states took a surprisingly strong stand in condemning this unilateral Chinese provocation, with the exception of the Philippines, they remain strangely quiet about demanding a return to the status quo ante. Removing these structures would speak loudly about future PRC intentions. The U.S. and ASEAN should continue to press this issue.

JAPAN: Unlike Northeast Asia, one hears very little today in Southeast Asia about concerns for Japanese remilitarization or a resurgent Japanese threat. However, when Southeast Asians are polled about their primary long-term security concerns or asked to rank-order various events that would most adversely impact their security, at or very near the top of most lists is concern over a disruption or break in the U.S.-Japan alliance -- a Sino-U.S. "Cold War" and PRC military action in the South China Sea normally round out their top three concerns.

President Clinton's April 1996 summit meeting with Prime Minister Hashimoto in

Tokyo was warmly received by most in Southeast Asia as a reaffirmation of the strength of the alliance. There were a few, however, who expressed concern that the U.S. was redefining the alliance in a way that would give Japan too active a security role. This has resulted in some expressions of concern in Southeast Asia. It also resulted in considerable anxiety in Northeast Asia, especially among China and the two Koreas. One Korean security specialist went so far as to charge that the U.S. may have "deputized part of its role as policeman in the region to Japan."

The message is clear: even as we encourage Japan to play a more active role in regional security affairs, we must take into account regional anxieties, lest we end up with a less stable security environment than we started with. We must do a better job of explaining what "revitalizing" the U.S.-Japan alliance means to the U.S. and Japanese publics and to the region at large.

OTHER POTENTIAL CHALLENGES: While concerns about China's future direction and questions about the viability and direction of U.S.-Japan relations remain at the top of the list, there is no shortage of potential security challenges and concerns in Southeast Asia today.

Leadership Transitions: Throughout Asia, but particularly in Southeast Asia, a new generation of leaders waits in the wings, in most but not all cases patiently. Most critical will be the transition in Indonesia. Some are already restless for Mr. Suharto to step down, but even if he runs and wins again, a transition is not too far away. Leadership transitions are also underway in Vietnam and Singapore. Meanwhile, the advent of true democracy in the Philippines assures continual transition there and one must question if another leader of the caliber of President Ramos will step forward. In democracies, leadership transition is a perpetual process, occasionally with significant impact on the conduct of foreign policy. In this regard, the full implications of a democratically-elected president on Taiwan is yet to be adequately addressed.

Sea Lane Security: Other potential future threats abound, particularly to the sea lanes that link the vibrant economies of Asia to one another and to the world at large. Piracy is becoming a problem in the South China Sea and Gulf of Thailand and promises to grow if left unattended. Acts of terrorism on the high seas, to date largely the stuff of Hollywood movies, are not unimaginable. Unilateral or multilateral attempts to prevent transit through international straits remains a perpetual problem which could worsen if ultra-religious or ultra-nationalist regimes come to power astride vital passageways. Simple congestion, and resultant accidents, oil spills and other environmental challenges also constitute a growing potential threat to sea lane security.

Regional Arms Modernization: Note also that almost all nations living astride Asia's sea lanes are improving their military capability. Off-shore power projection capabilities and anti-ship missile modernization programs are at the forefront of these modernization efforts and add a new dimension to historic concerns over maritime

passage and the security of strategic straits. The need to patrol, if not defend, expanded exclusive economic zones provides much of the current incentive to modernize. Nonetheless, arms races, while not currently underway, can easily be ignited or fueled, especially if the pace of modernization accelerates or tensions in the South China Sea increase.

Economic Challenges: Meanwhile, growing economic prosperity and competition invite corruption and have the potential of resurrecting historic rivalries that lie just below the surface among even the closest of regional partnerships. The downside of ongoing economic miracles -- increased migration (a sizable portion of it illegal), acid rain and other trans-national environmental concerns, graft and corruption within the private and governmental (including military) sectors, overheated or boom-bust economies and inflation (or superinflation), competition for exploitable (including human) resources, and perhaps even destabilizing trade wars, to name but a few -- will add additional challenges.

Questions also remain about the future role of APEC and how it will coexist with ASEAN's call for a Free Trade Area (AFTA) and Dr. Mahathir's wild card, the East Asia Economic Caucus (EAEC). How political or politicized will these economic groupings become? How do they relate to the emerging phenomenon of "natural economic territories" or more artificial "growth triangles" that transcend national boundaries? What are the implications of growing economic interdependence? Will this trend make conflict less or more likely? How does the trend toward economic integration square with the trend evident in other regions of the world toward national disintegration; i.e., the various ethnic, religious, and separatist movements that not only keep individual nations apart but threaten to further divide them?

APEC: While aimed at managing the effects of growing economic interdependence, APEC has important political and security consequences as well. APEC is not a security forum per se. Nor is it likely to become one in the near future. U.S. Secretary of State William Perry's comments on the eve of the 1995 APEC meeting suggesting that APEC might eventually evolve or expand into some type of security arrangement were promptly and forcefully refuted by virtually all APEC participants . . . nor was the idea introduced by U.S. participants during the actual APEC sessions. Nonetheless, the fact that the last three APEC annual meetings have included a heads-of-state gathering adds a significant political-security dimension to the organization. Even if security issues are not on the official agenda, leaders are likely to discuss such issues in the corridors, and their mere meeting has strong security overtones, as do the side meetings between many of the heads of states.

Complacency: There is one additional concern worth mentioning; namely, that the absence of a clear, imminent danger today could lull Americans and Asians alike into a false sense of security or complacency. Many pundits, particularly in the U.S.,

tend to forget that even the healthiest of gardens needs constant tending if we are to continue enjoying its fruits, not only today but year after year. Waiting until a crisis is at hand before taking appropriate action is the surest way of guaranteeing that crises will continually emerge.

Given the above litany of potential problems and growing uncertainties and concerns, it seems safe to predict that, while the precise nature of the next challenge remains unknown, new challenges to Asian security will surely emerge in the years ahead. Despite today's seemingly tranquil environment, we have not reached the "end of history." There are still many forces at work in Asia and elsewhere to ensure that we will, in keeping with the old Chinese curse, continue to live in interesting times.

THE U.S. ROLE

The frequency of challenges to regional peace and prosperity and the region's ability to overcome these challenges will be determined by a variety of factors. Paramount among them, in my view (and in the eyes of many Asian leaders and security specialists with whom I come in contact), will be the extent of America's future commitment to Asia and how this is expressed through daily policy implementation.

PERCEPTIONS: Three years ago, there was a great deal of concern in Asia, and among American Asian specialists, that there would be a precipitous American withdrawal from Asia, driven by the combined effect of a series of events: the insistent calls for a post-Cold War "peace dividend," the budget-driven demand to restructure and reduce the size of America's military forces in the wake of the Soviet Union's collapse, the neo-isolationism that emerged during the 1992 U.S. presidential election campaign, the new administration's pledged focus on domestic renewal (rather than international security), and the relative lack of pressing crises in Asia (with the periodic exception of North Korean nuclear developments).

This concern has not dissipated, despite the fact that no American withdrawal from Asia appears in the works and several Administration reports, including the Defense Department's 1994 Bottom-Up Review and 1995 East Asia Strategy Report (EASR), reaffirmed the need to keep U.S. military forces forward deployed in Asia, essentially at today's force levels, through the end of the decade. Despite such continued reassurances, many Asians continue to question U.S. long-term intentions. Is the U.S. truly committed to Asia militarily? . . . politically? . . . economically? Will America stay the course?

On the one hand, we have President Clinton's pledge to build a "new Pacific community," built upon "shared strength, shared prosperity, and a shared commitment to democratic values" -- a community that rests upon a continued American forward military presence and expanded dialogue and cooperation with friends, allies, and

potential adversaries alike. This vision, articulated by President Clinton during his July 1993 visit to Japan and Korea, was reemphasized, along with an underscoring of the importance of Asia's economic progress to U.S. economic well-being, during the 1993 Seattle APEC leaders' meeting initiated and hosted by Mr. Clinton.

On the other hand, since Mr. Clinton's promising start, things have steadily gone down hill: bitter arguments, primarily over trade but exacerbated by last year's Okinawa rape incident, with the U.S.' most important security ally and economic partner, Japan; even more bitter arguments, over just about everything, with the world's largest nation and emerging regional (if not global) power, China; emotionally-charged disagreements with the Republic of Korea over real and imagined slights caused by direct U.S. negotiations with the DPRK; over-publicized disagreements with Singapore (over the caning of a juvenile delinquent); and seemingly endless sniping at the world's fourth largest nation (and largest Muslim state), Indonesia, over human rights and assorted trade and labor-related issues; to cite just a few examples. So much for "community" relations!

Then, just when it seemed it could not get worse, Mr. Clinton skips out of last year's APEC leaders' meeting, due to the inability of the President and Congress to settle a self-inflicted crisis. This on the heels of Defense Secretary Perry's comment, referenced earlier, indicating that America wanted to turn APEC into some type of security arrangement; a comment which had already aggravated most, if not all the other APEC members (while further feeding the suspicions of those who believed from the onset that American support for APEC had hidden motives).

The President's decision to send Vice President Gore in his place to a meeting where all other member nations were being represented by the head of state was bad enough. But, even before Gore's arrival, Secretary of State Christopher, already in Japan, cut short his visit to rush back to Dayton, Ohio to monitor Bosnian peace talks, rekindling memories of his earlier absence from the first gathering of the ASEAN Regional Forum in Bangkok in 1994. The Japanese hosts and most of the assembled leaders generously expressed "understanding" about President Clinton's last minute regrets. But damage to U.S. credibility has been done. The fact that the reason boiled down to an internal squabble among Washington's political elite (displayed in all its glory throughout the world via CNN) not only provided little consolation but further tarnished America's image.

I must add that, while many of Senator Dole's criticisms of President Clinton's conduct of foreign policy in Asia (made during his speech at CSIS) were right on the mark, his criticism of the President for not attending the APEC meeting was a cheap shot -- not because it wasn't a damaging event, but because Senator Dole and the rest of Congress should fully share the blame for Clinton's inability to attend. All members of Congress should reflect upon the image of America being portrayed to the rest of the world during such political maneuvering -- especially those who preach to Asians and

others that they should emulate our system.

In the interest of restoring bipartisan flavor to America's foreign policy (the seemingly long-abandoned idea that "politics stops at the water's edge"), it is also appropriate to give credit where credit's due. The Administration's handling of the Okinawa rape incident and follow-up facilities review, the generally measured response to China's heavy handed actions vis-a-vis Taiwan, and the conduct and substance of the President's recent visits to Korea and Japan all merit great praise. These actions have contributed significantly to getting our Asia policy back on the right track. I am reminded, however, of Mark Twain's old maxim: "even if you're on the right track, you'll get run over if you just sit there." The key now will be successful follow-through, lest the Asians will become disillusioned once again when our actions fail to match our words.

To many Asians, there is a widening gap between what America says and what it does, and an even broader gap between what the U.S. says its policy is and what others perceive U.S. policies (and long-term intentions) to be. U.S. policymakers must understand how the current mixed signals and lack of clear policy statements or follow-through are impacting U.S. credibility in Asia and Asian opinions about U.S. commitment to the region.

In recent years, American policy all too frequently appears to have fallen into the hands of single issue advocates who seem willing to hold American foreign policy -- and our long-term security interests -- hostage to what appears to many to be less critical side issues that they are unable (or unwilling) to put in the larger perspective. In addition, even in normal times, but especially during an election year, we see an increased politicization of foreign policy which may make sense in terms of scoring domestic political points, but which confuses, disappoints, and occasionally alienates our overseas neighbors. What good are "engagement" or "enlargement" strategies, our Asian friends ask, if the road we travel on day-to-day seems headed in the opposite direction?

REALITY: Having said all this, I still believe that most Asians -- or at least most senior Asian government and business leaders -- deep down inside still understand that, current foreign policy shortcomings notwithstanding, the United States remains committed to the Asia-Pacific region; U.S. political, economic, and security interests dictate that this be so. When it comes to Asian security, the simple fact of the matter is this: the current largely benign Asian security environment, while a product of many factors, has as its single largest determinant, the American forward military presence and the sense of security commitment that this entails.

The U.S. protective umbrella over Asia not only protects the security interests of America's friends and allies, it also protects and promotes America's political, economic, and security interests as well. It is also cost effective, since history has repeatedly demonstrated that an extra ounce of protection -- in this case in the form of a continued American forward military presence and the credible combined defensive capability this

ensures -- even in the absence of an imminent or predictable threat, is considerably cheaper than the pound of cure that would be required to undo a wrong or respond to a crisis we failed to anticipate or deter.

POLICY: The Defense Department's East Asia Strategy Report (EASR) recognizes these basic facts and lays out a security strategy that supports President Clinton's vision of a new Pacific community; a vision that unambiguously identified a continued forward military presence in Asia -- specifically, the continued stationing of U.S. armed forces in both Korea and Japan -- as the "bedrock of America's security role in the Asian-Pacific region."

The U.S. commitment is further underscored by the U.S. Pacific Command's "Cooperative Engagement" strategy, originally developed by Admiral Chuck Larson and endorsed and refined by his two successors, first Admiral Dick Mackey, and now Admiral Joseph Prueher. Cooperative Engagement, with its emphasis on "places not bases," and the Pentagon's East Asia Strategy Report both continue to underscore our commitment to regional stability and cooperation. Clearly it is in the United States' national interest to continue to play a leadership role in Asia and to convince our regional friends and allies -- and potential adversaries -- that we are both determined and capable of playing such a role.

U.S. Forward Military Presence: One important way of demonstrating this commitment is through a continued forward military presence in Asia. When I say forward presence, I am not only speaking of the U.S. military forces based in Japan and Korea (and, to a lesser extent, in Singapore) although they are an indispensable element to be sure. I am also talking about ship visits, military exercises (large and small), military-to-military exchange programs, high level visits, security assistance efforts, defense attache activities, and the numerous other events and opportunities -- to include participation by military officers and other defense officials in regional conferences and seminars -- that "show the flag" and remind our Asia Pacific neighbors of our continued commitment.

U.S. forward-deployed forces help promote regional stability while guarding against unilateral acts of aggression, they increase the U.S. ability to respond to crises throughout the region, they demonstrate a U.S. commitment to friends and allies, they serve as a hedge against uncertainty, and they avoid a "power vacuum" that others who do not necessarily share our interests might be tempted to fill. They also serve as a hedge against a resurgent, more nationalistic, less cooperative Russia or a potentially belligerent China.

In short, the U.S. military presence is a low cost insurance policy that helps guard against future regional instability while protecting and promoting American and broader regional security interests . . . and, it is seen as such by most, if not all nations in the region.

Complementing our forward presence are International Military Education and Training (IMET) programs, which bring up-and-coming future military leaders to U.S. military schools, letting them see, first hand, American democracy in action. All too often, this is the first program withheld to demonstrate Congressional displeasure with a particular nation's actions. This, to me, seems particularly self-defeating. What better way to influence a nation's future behavior than to subject its future military leaders to positive examples and peer pressure to examine and explain their national policies to their peers? Every time you deny IMET you remove an opportunity for the U.S. to build long-term trust and confidence and teach by example.

U.S.-China Relations: Another key aspect of U.S. policy in Southeast Asia centers around the importance of improved relations between the United States and the People's Republic of China. The EASR lists as one of America's specific Asia-Pacific security objectives, "[to] engage China and support its constructive integration into the international community, including participation in global efforts to limit proliferation of weapons of mass destruction and foster transparency in its defense policy and military activities.

This has been interpreted by some in China as an attempt to brand the PRC as the next enemy or as a justification for an emerging "containment policy" directed at the PRC. In my discussions with U.S. defense officials involved in the preparation of this document, I am convinced that this was clearly not the intent. It rightfully points out that China is an emerging military as well as economic and political power and that this will have great impact on the Asia-Pacific region. It also notes that, "absent a better understanding of China's plans, capabilities, and intentions, other Asian nations may feel a need to respond to China's growing military power." The intent here is to underscore the need for greater transparency in China's defense programs, strategy, and doctrine. The EASR also stresses the critical importance of enhanced military-to-military dialogue between the U.S. military and the People's Liberation army (PLA), "in order to promote better mutual understanding, as well as greater transparency and trust."

U.S.-China relations appear to be at an important crossroad. Debates are underway in academic and official circles in both nations as to how much one side can or should trust and cooperate with the other. Should either side decide the other is its next enemy, this forecast could easily become a self-fulfilling prophesy. I, for one, do not believe either side has already reached this conclusion, but recognize that others on both sides disagree.

Looking toward the future, from the U.S. perspective, the real challenge is to meld America's traditional commitment to democracy and human rights and its concerns over issues such as non-proliferation into a broader overall long-term policy that promotes regional stability and cooperation; one that stresses patience and long-term results over instant "compliance" with American demands or desires. China's sovereignty concerns must also be recognized and dealt with in a more constructive manner.

This does not mean that the U.S. should kowtow to China. Firm, but measured responses to inappropriate PRC actions are necessary and expected (and appreciated) by our friends in Southeast Asia and elsewhere. This is especially true vis-a-vis potential hostilities in the South China Sea. In this regard, the May 10, 1995 United States declaration, asserting our commitment both to freedom of navigation and to the peaceful resolution of territorial disputes was broadly cheered. While remaining neutral regarding the validity of individual claims, the statement condemned any unilateral action that could increase tensions or trigger conflict. This U.S. statement constituted a strong renewed endorsement of the 1992 Manila Declaration calling for the peaceful settlement of disputes over the Spratly Islands, the exercise of restraint in the area, and cooperation among claimants in the South China Sea. It helped to clarify the U.S. commitment to protecting its own, as well as broader regional security interests.

The recent China-Taiwan "crisis" provides another interesting case study. The dispatching of two aircraft carrier battle groups to the vicinity of Taiwan sent a clear signal of U.S. resolve. America's friends and allies in Asia were quietly supportive but nonetheless eager to see the U.S.-China stand-off end. China severely damaged its credibility in Asia with its heavy-handed actions, even though many Asians also blamed Lee Tung-hui for "rocking the boat" in the first place. They look to the U.S. as a stabilizing force in the region and value a demonstration of U.S. resolve. But, they do not seek a U.S.-PRC confrontation. When asked where one draws the line between an appropriate U.S. demonstration of resolve and unnecessary provocation, one Asian colleague acknowledged that he wasn't quite sure, but suspected that it was "somewhere between one and two carrier battle groups." No one in Asia wants to be forced at this point in history to have to choose sides between the U.S. and China, but all are watching closely to see how effectively and fairly the U.S. can manage the relationship.

There is also a great deal that China can and must do. For example, China could increase the transparency of its military budgets, strategy, and weapon system acquisition or development plans. It could promote greater military-to-military dialogue and other confidence-building measures. It also needs to seek out opportunities for greater bilateral and multilateral dialogue, to include discussions on security as well as economic issues not only with the U.S. but with others throughout the region. China should also resume its direct high-level dialogue with Taiwan (the "Koo-Wang talks"), suspended since the June 1995 Lee Teng-hui visit to the U.S. The best way to keep the U.S. out of the middle of this "internal matter" is for the two sides to take positive steps to defuse the tensions between them; direct dialogue seems the best route to accomplish this.

MULTILATERALISM

Emerging multilateral security mechanisms provide additional opportunities for cooperation and constructive dialogue aimed at building confidence and promoting stability in Asia. Well-established multilateral mechanisms aimed at enhancing Asia-Pacific security now exist both at the official and at the non-governmental or

so-called track two levels.

The United States has modified its view about multilateral security dialogue in recent years, recognizing the value of such dialogue mechanisms in the post-Cold War era, provided they serve to complement and do not seek to replace America's vital bilateral alliances in Asia. This U.S. policy conversion has raised concerns among those in Asia who are skeptical regarding America's long-term commitment to the region. Even many long-time proponents of multilateralism in Asia, while clearly supportive of the concept and pleased with the change in U.S. attitude, have expressed concern that U.S. participation in multilateral security mechanisms might serve as a cover or excuse for a reduced American military presence or commitment.

American policy-makers must remain attuned to these concerns, and continually stress that U.S. support for increased regionalism is built upon the premise that such multilateral efforts complement or build upon, and should not be seen as a substitute for, enduring bilateral relationships. Given lingering regional apprehensions, it remains incumbent on the U.S. to stress, and to demonstrate, that its involvement in multilateral activities is aimed at providing additional means of engagement and not as an excuse or cover for a significant reduction in America's security commitment in Asia.

Foremost among the new official mechanisms is the aforementioned ASEAN Regional Forum. The ARF brings together the foreign ministers from the Association of SouthEast Asian Nations (Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam), their dialogue partners (Australia, Canada, Japan, South Korea, New Zealand, the United States, and the European Community), and other key regional players (China, Russia, and Vietnam, plus Papua New Guinea, Cambodia and Laos) -- 19 nations in all -- to discuss regional security issues.

This annual ministerial gathering, first held in 1994, provides a clear signal of the growing regional commitment to multilateral security dialogue throughout the Asia-Pacific. India and Burma have recently become associated with ASEAN as a dialogue partner and observer, respectively, opening the door for their participation in the ARF beginning this summer.

At the non-governmental or so called "track two" level, organizations like the Council for Security Cooperation in the Asia Pacific (CSCAP) supplement the official talks by promoting candid multilateral dialogue and regional confidence building. CSCAP links regional security-oriented institutes and, through them, broad-based member committees comprised of academicians, security specialists, and former and current foreign ministry and defense officials. Government (including uniformed military) participants take part in their private capacities.

CSCAP member committees have been established in Australia, Canada, Indonesia, Japan, South and North Korea, Malaysia, New Zealand, the Philippines,

Russia, Singapore, Thailand, and the United States. A European Community consortium and an Indian institute have joined as associate members. Vietnam is forming a member committee and is expected to become a full member in the near future, as is Mongolia. CSCAP is currently developing a formula to permit full membership by the PRC while still assuring a voice, at least at the working group level, for scholars and security specialists from Taiwan.

The Pacific Forum CSIS serves as the U.S. link to CSCAP and operates the U.S. member committee (USCSCAP). I am executive director of USCSCAP and co-chair the CSCAP international working group on confidence and security building measures. As a result, I am a strong proponent of multilateralism, but with an important caveat. I see organizations like the ARF and CSCAP as dialogue mechanisms aimed at promoting confidence and understanding among nations. They do not today, and perhaps never will, represent security arrangements or alliances aimed at countering or redressing specific acts of aggression.

This is not to demean their importance; "talk-talk" being much preferred over "war-war," to paraphrase an old maxim. But these emerging regional organizations, in my view, are no substitute for the series of U.S. bilateral security alliances that underwrite regional security. Simply put, bilateralism and multilateralism are not mutually exclusively, but mutually supportive. This is not, and should not be seen as, an "either-or" proposition. Without solid bilateral relationships, few states would have the confidence to deal with one another in the broader context. Conversely, some problems can best, perhaps only, be solved bilaterally. Nonetheless, multilateral security forums such as the ARF and CSCAP hold great promise for enhancing regional security, provided their limitations as well as their benefits are fully recognized.

BENEFITS OF MULTILATERALISM: Security dialogue mechanisms can be important vehicles for promoting long term peace and stability. Institutionalized multilateral forums can be most valuable if they serve as confidence building measures aimed at avoiding, rather than reacting to, crises or aggression. In time, they should also be capable of dealing with non-traditional security concerns such as refugee problems or pollution and other environmental issues.

Multilateral settings can also facilitate bilateral (or sub-regional) dialogue among nations and their official or unofficial representatives who, for a variety of reasons, may be unable or ill-prepared to make arrangements directly with one another. The APEC Leaders' Meetings, for example, have made it possible for President Clinton twice to engage in direct discussions with Chinese President Jiang Zemin when bilateral summit meetings would have been politically impossible to otherwise arrange. The 1994 APEC Leaders Meeting in Indonesia also produced a three-way "mini-summit" involving the leaders of the ROK, U.S., and Japan. Likewise, this year's G7 Nuclear Safety Summit provided the first opportunity in 11 years for a Japanese Prime Minister to visit Moscow.

Multilateral security mechanisms such as the ARF and CSCAP are, by their mere existence, confidence building measures, in that they promote greater trust and understanding in the region. They also provide a forum for the further investigation and development of confidence building measures that may be applied either region-wide or on a more selective, sub-regional basis. In this, as in many other instances of multilateral dialogue, the process itself is an extremely important product, since increased dialogue promotes increased understanding which, in turn, hopefully leads to a reduced risk of conflict.

Multilateral forums also provide a venue for other regional actors to be heard on security issues that affect them all. Track two organizations such as CSCAP can provide "benign cover" for governments to vet new policies and strategies in a more academic setting before adopting formal proposals at the official level. In addition, nations or entities that might find it uncomfortable or politically unacceptable to engage in bilateral dialogue can still effectively interact at the multinational level, particularly in non-governmental forums.

More relevant to our discussions, multilateral security forums provide a framework for enhanced U.S. involvement in Asian security that complements, but does not seek to replace, current bilateral security commitments. They provide a useful vehicle for greater interaction between China and its neighbors while promoting greater transparency regarding Chinese capabilities and intentions. They also permit Japan to become more actively involved in regional security matters in a manner that is non-threatening to neighboring countries.

Multilateralism also provides Russia with opportunities for greater regional integration while bolstering those in the Kremlin most committed to international cooperation. Finally, non-governmental forums provide a venue for bringing North Korean officials into direct contact with their southern counterparts in a less-confrontational atmosphere, while also helping expose them to broader regional realities.

LIMITATIONS OF MULTILATERALISM: While multilateral security dialogue mechanisms hold many promises for Asia, they have their limits as well. A clear understanding of the weaknesses and boundaries -- of what multilateral venues are neither suited for nor intended to accomplish -- can prevent false or over-optimistic expectations and allow the nations of the region to maximize the opportunities and benefits to be derived from multilateral approaches to regional security.

Broad-based multilateral forums like the ARF are useful vehicles for discussing potential problems, but seem ill-equipped (and not very eager) when it comes to resolving crises once they have occurred. Ad hoc coalitions and more focused problem-oriented groupings appear more useful in solving problems or dealing with actual crises in Asia (or elsewhere, witness the Desert Storm coalition assembled to deal

with Iraqi aggression during 1990/91). A standing NATO-type alliance aimed at defeating or containing a specified threat simply does not apply to a post-Cold War Asia -- nor, for that matter, was it possible to sustain even at the height of the Cold War.

Multilateral organizations (governmental and non-governmental) generally act through consensus in setting their agendas and making recommendations. This acts as a brake of sorts on how fast these organizations can move forward. For this reason, those promoting multilateral dialogue and various forms of regional confidence building realize the continued value and relevance of unilateral and bilateral measures that not only build trust and confidence in their own right but also help lay the foundation for broader-based cooperation. Such efforts set useful precedents and place pressures on multilateral organizations to move forward.

CONCLUSIONS

MULTILATERAL DIALOGUE HELPFUL: Multilateral security dialogue holds many promises for Asia, although it is important to understand its limits as well as the opportunities it presents. Broad-based multilateral forums are useful vehicles for discussing potential problems. They are ill-equipped (and not very eager) when it comes to resolving crises or righting wrongs once they have occurred. Institutionalized multilateral forums can be most valuable if they serve as confidence building measures aimed at avoiding, rather than reacting to, crises or aggression.

Despite their limits, emerging multilateral security mechanisms in Asia can be important vehicles for promoting long term peace and stability. They provide both a means for, and guarantee of, continued direct U.S. involvement in Asian security matters. They also offer a means for Japan, China, and Russia to become more actively involved in regional security matters in a manner that is non-threatening to their neighbors. They also provide a mechanism for other regional actors to be heard, while contributing to a sense of regional identity and a spirit of cooperation. In many instances, the process itself may be the most important product, since increased dialogue promotes increased understanding which, in turn, hopefully leads to a reduced risk of conflict.

Finally, Asia-Pacific multilateral organizations provide another opportunity for continued U.S. involvement and leadership; they should not be seen either as a substitute for, or as a threat to, U.S. leadership -- nor should they be used as an excuse to reduce our level of commitment or engagement. In short, this is not an either-or question. From a U.S. perspective, multilateral and bilateral approaches should be seen as self-supporting, not mutually exclusive.

HARMONIOUS U.S.-PRC RELATIONS NEEDED: The PRC and U.S. remain the central players in the Southeast Asia security drama. How they interact with the rest of the region in no small part depends on how well they can interact with one another. In the final analysis, and assuming the continued viability of the U.S. alliance with Japan,

the principle determinant of regional stability will be the degree of harmony that can be maintained between Washington and Beijing as both nations adjust to China's emergence upon the regional and global leadership scene.

Let me be perfectly clear about this point. I am not talking about a U.S.-PRC alliance or strategic condominium. Nor am I demeaning the centrality of the U.S.-Japan relationship or suggesting that a U.S.-PRC relationship can substitute or replace that alliance. What I am talking about is genuine cooperation and managed competition that does not lose sight of the fact that China and the U.S. are each too large and too important for the other to ignore or alienate. This will require Beijing to lower its voice and stop treating every U.S. action as if it were part of some grand conspiracy or containment scheme. It will also require the current (or any successor) Administration to take firmer control over its foreign policy toward the PRC -- and require the U.S. Congress to act more responsibly as well.

The day may come when the United States, in conjunction with other regional friends and allies, is forced to conclude that China is determined to pursue a collision course with the rest of Asia and must be contained. But that day has not arrived. The goal today should be to prevent this from occurring. The return of a bi-polar confrontation pitting China (and those in Asia that would choose to align themselves with the PRC) against the U.S. and others serves no one's national security interests.

U.S. LEADERSHIP/COMMITMENT ESSENTIAL: U.S. security strategy in the Asia-Pacific region, based upon strong bilateral alliances and a credible forward military presence, has played a positive role in establishing the currently benign security environment enjoyed in Asia today. But, the end of the Cold War has not meant an end to potential security challenges, and serious questions remain regarding long-term stability in this politically dynamic, economically vibrant region. As the nations of Southeast Asia attempt to build a new post-Cold War security framework centered around the ARF, most continue to look to the United States for leadership and for a continuation of the U.S. security commitment that has been so instrumental in their remarkable economic and social progress.

However, some in Southeast Asia today question our commitment to remain engaged; others wonder if we are capable of playing a future leadership role even if we remain determined to do so. Our military policies and strategies seem sound -- the U.S. Pacific Command's "Cooperative Engagement" strategy with its emphasis on "places not bases" and the Pentagon's East Asia Strategy Report continue to underscore our commitment to regional stability and cooperation. But, our actions do not always match our words.

Clearly it is in the United States' national interest to continue to play a leadership role in Asia and to convince our regional friends and allies -- and potential adversaries -- that we are both determined and capable of playing such a role.

GEORGETOWN UNIVERSITY
INAUGURAL DISTINGUISHED LECTURE
ON SOUTHEAST ASIA

**THE SOUTHEAST ASIAN DRAMA:
EVOLUTION AND FUTURE CHALLENGES**

by

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Minister for Foreign Affairs
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Washington DC, 22 April 1996

THE SOUTHEAST ASIAN DRAMA: EVOLUTION AND FUTURE CHALLENGES

It is a great honour for me and for Singapore to be invited to inaugurate this Distinguished Lecture Series on Southeast Asia. Georgetown University is a world leader in the study of international relations. This annual Lecture reaffirms the University's pre-eminent position in this field. More importantly, it will promote a better understanding of Southeast Asia in the United States.

Let me begin with an outline of my lecture today. In the first part of the lecture, I wish to provide a broad-brush summary of Southeast Asian history as we need to know the past to understand the present. In painting the broad strokes of history of half a millennium or more, one of course always faces the risk of oversimplification. I am taking this risk in order to illustrate how very exceptional the current situation in Southeast Asia is when viewed against the backdrop of its past.

In the second part of the lecture, I will look at three important factors which, in my view, have contributed to peace and prosperity in Southeast Asia. The three factors are, first, strong leaderships dedicated to development; second, the successful role played by the Association of Southeast Asian Nations (ASEAN) in fostering regional cooperation; and finally, a benign external environment in the Asia-Pacific underpinned by American leadership.

An Historical Overview

The characters in the Southeast Asian drama have changed again and again. Indeed, diversity, the potential for conflict and the impact of

external forces have always been, and remain, defining features of Southeast Asia. The mosaic of ethnicity, language and religion in Southeast Asia is so complex that many have described the region as the Balkans of Asia.

Historically, there were many political actors in Southeast Asia. However, no single empire had ever succeeded in dominating the entire region. There is no equivalent in Southeast Asian history of the unifying Holy Roman Empire. Instead, Southeast Asia witnessed the rise and fall of countless empires and dynasties since the earliest recorded history. Funan, Pagan, Ayuthia, Angkor, Champa, Annam, and Tongking, among others, waxed and waned across the Southeast Asian mainland. In archipelagic Southeast Asia, Srivijaya, Majapahit, Mataram, Malacca and other lesser entities ebbed and flowed, interacting with the mainland mainly at the margins. This is testimony to the richness and diversity of political life in this region. But it also reflected the ceaseless political conflict in the region.

Political life in early Southeast Asia was characterised by an endless struggle for population, trade and status between rival centres. As universalist religions based on sacred Scriptures took hold in the region between the 15th and 16th centuries, a further overlay of diversity was added. This created profound divisions between the different cultural, philosophical and religious centres. There was a distinct arc of Islamic influence in the South, with several pockets in the mainland. In Vietnam, there was a Confucian political orthodoxy; in the Philippines a Christian outpost. The rest of the mainland was a Theravada Buddhist bastion. These religious and philosophical differences were further entrenched by the advent of colonialism.

The Impact of Colonial Rule

The colonial European powers became actors in the Southeast Asian drama as early as the 16th century. Colonial rule initially muted conflicts. Long-standing conflicts were suppressed as the colonial powers carved out spheres of influence. However, as colonialism took root, it fragmented the already complex and diverse regional motifs. It also accentuated the differences between different parts of Southeast Asia. Colonial boundaries drawn in London, Paris, the Hague, Lisbon or Madrid imposed an unnatural political grid on existing ethnic, linguistic and religious patterns. This imposition of artificial boundaries planted the seeds of future conflicts.

The Japanese occupation of Southeast Asia was the only period in Southeast Asian history when a single power imposed a common pattern on the regional mosaic. However, the Japanese occupation was mercifully brief. The artificial unity imposed by the Japanese could not and did not last. But it served to catalyse the growing opposition to colonial rule.

The defeat of Japan and the end of World War II led to a confusing and complex period in the history of Southeast Asia. The fight for independence was combined with the rise of insurgencies, subversions, separatist movements and religious and racial conflicts. In the context of the ideological superpower rivalries of the Cold War, these conflicts assumed an even more profound character. Local conflicts became regional conflicts that had a bearing on the global balance of power. The fall of Saigon, for instance, was more than simply the unification of Vietnam. It was seen as part of a global communist expansion. The image of dominoes teetering on the brink of collapse was not an illusion in Southeast Asia. It was a very real threat.

Dominoes to Dynamos

Some Americans view Southeast Asia through the prism of America's unhappy experience in Vietnam. Those who regarded America's sacrifice in Vietnam as futile or unnecessary may see Southeast Asia's stability and dynamism after the fall of the war as a vindication of their beliefs. It has been fashionable in some circles to dismiss the domino theory. This, in my view, is an ahistorical view.

Today, the dominoes have become dynamos¹. The region is at peace and prosperous. We have come to take for granted Southeast Asia as a stable region that includes some of the world's fastest growing economies. The temptation is to see the present as somehow preordained or inevitable.

However, viewed against the backdrop of the past, contemporary Southeast Asia is partly the result of serendipity. The peace, unity and prosperity of contemporary Southeast Asia represents a contrast with the region's dominant historical pattern. It was the consequence of conscious policy choices by several governments of the region and supported by the United States and the West. In just over one generation, Southeast Asia has been transformed from a cockpit of war to an arena of peace and prosperity. The present situation was not pre-determined let alone inevitable. What has been achieved in one generation can be quickly undone through folly or ignorance of the past.

¹ This concise and felicitous description of the vast transformations that had occurred in Southeast Asia is adapted from the title of John Bresnan's book From Dominoes to Dynamos : The Transformation of Southeast Asia [1994]. In his acknowledgements, Bresnan himself attributes the title of his book to remarks by President Bill Clinton to the host committee for the Asia-Pacific Economic Cooperation (APEC) Summit in Seattle on 19 November 1993.

The most profound changes occurred in the thirty years from 1965. All Southeast Asian countries, with the exception of Brunei, were then already independent. That same year, America increased its involvement in Vietnam. For one decade, 1965 to 1975, the United States held the line in Indochina. This consolidated the non-communist countries of the region and helped stabilise a regional balance that had threatened to disintegrate through communist tactics of subversion and guerilla insurgencies. The United States brought valuable time for the non-communist Southeast Asian countries in ASEAN to put their own houses in order. That valuable breathing space laid the foundation for the rapid economic growth of the 1980s and 1990s.

With the end of the Cold War, especially after the Cambodian conflict was resolved in 1991, the economic success of non-communist Southeast Asia provided a powerful model for the Indochinese countries. There was an incentive for these countries to integrate themselves into the regional community and reorient their economic policies. The peace and prosperity that we see in Southeast Asia today began with the United States role in the region in the 1970s. We do not dismiss America's sacrifice in Vietnam as having been in vain. We know how critical American leadership, political will and generosity were in putting Southeast Asia on the path to peace and prosperity.

A few statistics serve to underscore the extent and depth of change. In 1965, Laos and Myanmar were the poorest of the Southeast Asian countries with per capita incomes of only US\$65. By 1992, Myanmar had increased its per capita income by more than three-fold to US\$213. Laos' per capita income increased even more dramatically to US\$320. Every Southeast Asian country, even Vietnam and Cambodia, which had been at war almost continuously, improved its per capita incomes between 1965 and 1995. Of course, as Table 1 indicates, the

increases were sharpest in the non-communist countries. Indonesia, the most populous and the country with the lowest per capita income, increased its per capita income more than ten-fold from US\$85 in 1965 to US\$880 in 1994.

Between 1965 and 1995, Malaysia, Thailand, Indonesia, the Philippines and Singapore grew at an average rate of 7 percent per annum. This is well above the world average growth rate of about 3.5 percent in the same three decades. As Table 2 indicates, even if the slower growing economies of Indochina and Myanmar are factored into the equation, the ten Southeast Asian countries grew by an above-world average of about five percent during these three decades.

How did this happen? More importantly, will this last? The future is never a simple extrapolation from the present. But we cannot even begin to guess where we will go if we forget from whence we came. If we understand our past, even imperfectly, we can create our own future.

The Domestic Imperative

As I said at the outset, Southeast Asian growth can be explained by three inter-locking sets of factors: domestic, regional and strategic. Each also generates its own challenges. I will examine these three factors in turn.

At the domestic level, the central and critical role of the government is one of the key factors for Southeast Asia's success. There is a variety of political systems in Southeast Asia, reflecting different histories and political traditions. But the common thread running through all the different Southeast Asian countries is the presence of a strong leadership that is dedicated to the cause of development.

The emergence of secular, pragmatic and strong long-lasting political leaderships, committed to economic growth is a factor whose importance cannot be over-estimated. The contrast between the policies of President Sukarno and President Soeharto in Indonesia is only the clearest example of a more general regional phenomenon. This is a phenomenon that was and will remain a basic factor in the success of Southeast Asian countries.

Southeast Asian governments have been successful in creating a degree of social cohesion and political stability essential for economic development. This has reinforced development which in turn has reinforced social cohesion and stability. The increasing tide of development has tempered more virulent forms of nationalism. It has also helped the political leaderships manage the centrifugal tendencies inherent in all plural societies, even if they could not erase them entirely. Good, effective and fair government is critical if Southeast Asia's growth and stability is to be ensured in the future. The tools and styles of governance will, however, evolve.

Economic growth has also engendered important changes in the structure of Southeast Asian economies. Most Southeast Asian countries have moved from being relatively closed primary producing economies, to open export-oriented manufacturing economies. Table 3 indicates that, in almost all countries, manufacturing as a percentage of the GDP has steadily increased, today standing at between 25 percent and 33 percent of the five more advanced Southeast Asian economies. As Table 4(a) indicates, this has been accompanied by an increase in the value of the trade of Southeast Asian countries. Table 4(b) illustrates how, in the same period, almost all Southeast Asian economies have also become more deeply integrated with the advanced markets of the United States, Japan and Europe. China is of increasing importance. As India's reforms

advance, it too will become more closely interdependent with the region, re-establishing another traditional influence.

These economic changes have had important social and political consequences. As Southeast Asian societies become more developed economically and internationally integrated, they must inevitably also become more complex. New elites and interest groups have emerged and clamour to be heard. Established relationships are re-ordered. Stability requires that political arrangements continually accommodate such new developments in some way. Change is inevitable. It is also inevitably disruptive as sometimes delicate internal balances forged over decades are reconfigured. This phenomenon is sometimes described as a struggle between nascent democracy and retrograde authoritarianism; or, more generally, between Asian and Western values.

In my view, these are only shorthand descriptions of far more complex and interesting developments. They cannot be reduced to simple dichotomies between East and West. They pose difficult challenges that are not always well understood outside the region. In heterogeneous societies, populist and pluralist politics could prove very dangerous and destabilising, if mismanaged. And as societies become differentiated and as the pace of change accelerates, the differences between rural and urban and between the secular and traditional elites will broaden. This could set the stage for religious and ethnic fundamentalism.

The experience of the more mature economies in Europe and elsewhere is instructive. Their experience has shown that with rapid economic growth, politics becomes differentiated with multiple interest groups and parties. This makes the process of adaptation more difficult. Yet greater independence and integration with the global economy makes rapid and constant change essential to sustained growth. If politically

mismanaged, growth may make further growth limited. This is a paradox but is a reality in Southeast Asia. As Southeast Asian societies are still imperfectly integrated societies, the consequences of slow or negative growth will be even more severe than elsewhere.

Rapid economic growth also presents new challenges. The negative impact of rapid growth is already apparent in many Southeast Asian countries, in the form of urban congestion and inadequate basic infrastructure. There is also the danger that the corrupting influence of money and other undesirable aspects of multi-party politics may lead to a popular backlash. These could delegitimise and destabilise some governments, especially if these governments do not deliver economic growth and material satisfaction.

Southeast Asian countries are now searching for their own distinctive mixtures of the market, state and society. Each country must choose a system that will enable it to manage social change, preserve political stability and sustain economic growth over the long term. But Southeast Asia is increasingly interdependent with the developed economies. This search for the right mixture cannot therefore be purely a domestic affair.

External influences play an important role in the unfolding Southeast Asian drama. Modern communications, easy travel, open trade and investments and a host of other factors have made this possible. The key question is how to balance the external influence with the domestic process. This will require sensitivity, responsibility and a deeper understanding of Southeast Asia by the external players. It is not in the interest of both external players and countries in the region if Southeast Asia falters and fails, reverting to an older pattern.

The Regional Dynamic

At the regional level, ASEAN has played a unique and indispensable role in building a Southeast Asian community. The fundamental achievement of ASEAN is that it has created and entrenched a habit of regional cooperation among countries in Southeast Asia. ASEAN has also played a role in creating conditions for economic growth and sustaining it. Rapid economic growth is creating a common regional experience. For the first time in Southeast Asian history, there is a common regional consciousness and a secular, modern Southeast Asian elite. These elites are different yet feel at home doing business in Bangkok, Bandar Seri Begawan, Hanoi, Jakarta, Kuala Lumpur, Manila or Singapore.

After almost 30 years, ASEAN's success and importance is widely acknowledged. But ASEAN as an organisation is still not well understood, even by some of its closest external partners. ASEAN is not and has never been intended to be a vehicle for regional integration. This is still not a realistic goal. Rapid economic development has helped maintain social cohesion and social harmony not only within but also between the highly diverse countries of the region. But growth has not, and perhaps never will, erase primordial attitudes to race, language and religion. These remain basic driving forces in the regional dynamic.

Although diversity and the potential for conflict are permanent realities in Southeast Asia, this has not limited ASEAN's potential for promoting regional cooperation. On the contrary, a recognition of this reality is necessary for the realisation of that potential. It serves as a reminder that ASEAN cooperation is a complex and evolving process.

ASEAN's sense of community is the result of a conscious and continuing attempt to forge consensus and mute or put aside differences. Southeast Asian leaders knew that regional peace and stability were essential in order to achieve their goal of national development. Hence, these leaders had and still continue to concentrate on developing and nurturing common interests. Conflicts have been put on the backburner to be resolved, if possible, in the future. This is a realistic and responsible approach. Such an approach ensures that cooperation will never be held hostage to issues that require more time to be resolved.

ASEAN worked as an organisation for one simple reason. And that is that every member recognised that it was in its own national interest to make it work. Every ASEAN leader recognised that the region would only be strong if each individual country was strong and resilient. ASEAN countries knew that just as a chain is only as strong as its weakest link, the strength of the region would only be enhanced by the strength of individual components. ASEAN was thus never intended to supplant individual sovereignties. On the contrary, the objective was to create an environment that would enable each member to realise its greatest national potential. ASEAN therefore provided a constructive channel for the energies generated by nationalism. It also ensured that nationalism would be directed to cooperative rather than destructive purposes.

Viewed from this perspective, ASEAN is not just a regional organisation. It is a way of calculating and defining national interests. The measure of regional cooperation in Southeast Asia cannot be merely the number of projects agreed and implemented. For each ASEAN member, the "ASEAN factor" was a necessary and real element in the calculation of national interest. The weight of this intangible factor may have varied from issue to issue and over time. But it was never entirely absent. ASEAN cooperation has not erased the old patterns of

competition and conflict. But it has significantly controlled them and made them less dangerous and less relevant to day-to-day interactions.

One of the key factors for ASEAN's success is its flexible *modus operandi*. This helped ASEAN hold its members together in the initial years when almost every ASEAN member was, at some point, in dispute with some other ASEAN member. It also enabled ASEAN to weather the storms that swept across Southeast Asia after the fall of Saigon in 1975 and during the Cambodian conflict in the 1980s. ASEAN's success has given its members the confidence to meet the challenges of the next phase.

ASEAN has succeeded in creating a habit of intra-regional cooperation. Confidence and comfort levels have never been higher in Southeast Asia. This habit now even extends to cooperation on defence and security issues. The ASEAN of the future must continue to perform these functions. However, it must also develop an outward-oriented agenda to cope with changes both in the region, in the wider Asia-Pacific and in the world.

The original ASEAN of five became six in 1984 when Brunei joined. Vietnam became the seventh ASEAN member in 1995. By 1997, Cambodia and Laos will join ASEAN while Myanmar might do so by the end of the decade. This will bring, for the first time in the region's history, all ten Southeast Asian states into a single system. The inclusion of Vietnam has now given ASEAN land borders with China. Vietnam no longer insulates the other ASEAN members from China. Instead, it makes China an immediate neighbour. So too when Myanmar joins ASEAN. Myanmar will make India an immediate neighbour.

The implications of these developments are not immediately clear. But it seems likely that they will reinforce the effect of interdependence in the field of trade, investment and finance. Who is a Southeast Asian? Where does Southeast Asia begin or end? How will the dynamics of an ASEAN of ten members differ from an ASEAN of six or seven? The answers to these questions will only emerge over time. The new challenges are both subtle and complex.

The basic issue is what constitutes ASEAN's essential identity in an era of growing interdependence. Diplomatic and academic terminology underscores shifts of perception. East Asia used to mean China, Taiwan, the two Koreas and Japan. That region is now more commonly described as Northeast Asia. East Asia, as we today understand it, encompasses both Northeast Asia and the ten Southeast Asian countries. East Asia is today as much an economic concept as it is a geographical place name.

New language reflects new realities. Meeting the new challenges will not just depend on ASEAN remaining cohesive. The ASEAN Free Trade Agreement (AFTA) is an important factor for cohesion. Much will depend on whether ASEAN can simultaneously influence the broader environment within which Southeast Asia exists. To some degree, ASEAN already did this during the Cambodian conflict by preventing a Soviet-sponsored *fait accompli*. It must now be able to achieve such major objectives in other fields and in the more fluid and ambiguous post-Cold War international system.

The international environment for ASEAN is likely to become more difficult. Although intra-regional trade is increasingly important, ASEAN's main sources for economic advance remain America, Japan and Europe. Technology inexorably makes for global economic integration.

But many mature western economies see closer economic integration and the restructuring of the economy as a political threat. Workers in Europe and America fear for their jobs. Slow growth and high unemployment seem to be structural features of the developed economies. A mood of pessimism about the future will make itself felt through the ballot box in these countries.

Western leaders who believe in open trade have come under increasing pressure. Their political opponents appear successful in mobilising electorates by advocating new forms of mercantilism. For western governments, the Cold War imperative of winning friends is no longer valid. The justification for open western markets must now be sought in more tangible ways, quantifiable in jobs, exports and the bottom line of western companies. Without this, it is prudent to assume that ASEAN's very economic dynamism will provoke pressures.

Against these pressures, closer economic cooperation within ASEAN and becoming more open to America, Japan and Europe is a logical response. Indeed, coordination and a modest measure of integration of the ASEAN economies through AFTA is a first step. AFTA is intended to help preserve ASEAN's competitiveness in the new environment. It is a fundamental strategic decision, with profound consequences for the region's future, a new stage in ASEAN's evolution.

I am optimistic because I believe that AFTA's basic directions have been established. They cannot be reversed. But it would be foolish and unrealistic not to recognise that the way ahead will not be full of hazards. The pace of advance will vary over time. There may even be temporary reverses. But ASEAN recognises that timely advance is of the essence for success.

All ASEAN leaders recognise that a full-fledged AFTA is at best, only a partial solution to the global challenges. The total value of intra-APEC trade is in excess of US\$2 trillion. The total value of intra-Europe trade is just under US\$2 trillion. ASEAN, despite its large combined population and rich natural resources, is a very small player. In 1994, total intra-ASEAN trade was only about US\$116 billion, a mere 4.1 percent of total intra-APEC trade, and Singapore accounted for more than 50 percent of that figure. Table 5 clearly shows the weight of Southeast Asia's share of world trade relative to that of the larger Asia-Pacific countries.

The lesson is obvious. Interdependence means that ASEAN needs wider linkages to continue to prosper. APEC is one means to this end. But some ASEAN members are anxious about ASEAN's future in APEC. Yet to sustain growth and stability, ASEAN has no choice but to face the difficult challenge of maintaining its identity and cohesion. This is also essential if ASEAN is to influence extra-regional organisations containing more powerful states.

ASEAN is rising to the challenges. The Asia-Europe Meeting (ASEM) held in Bangkok in March this year was a major and successful ASEAN initiative. This historic summit between the leaders of ASEAN, Europe, China, Japan and South Korea is a reflection of ASEAN's growing international stature. It would have been inconceivable a few years ago that a group of developing countries could promote an international diplomatic conference of such historic significance. The ASEM best illustrates the potential of ASEAN as a source of ideas and a catalyst for initiatives in the broader Asia-Pacific and world community.

At the same time, this ability to act as a catalyst must be based on a realistic appreciation of the limits to ASEAN's capabilities. ASEAN

works best when it can leverage its connections with bigger organisations. Would the ASEM have been so attractive to European leaders if ASEAN countries were not also members of APEC? I doubt it. Therefore, the challenge for ASEAN is to submerge and integrate itself in these larger organisations and influence them, but without losing its separate identity. The challenge is not only from the strong magnetic attraction of larger and more powerful economies. It must also be met in explicitly political forums created by ASEAN itself such as the ASEAN Regional Forum (ARF).

The Strategic Front

This brings me to the final, and perhaps the most important factor underpinning recent Southeast Asian growth. I had earlier alluded to the importance of the American intervention in Vietnam in the mid-1960s in stabilising the Southeast Asian balance of power and in buying time for the ASEAN countries. The fact that this was crucial bears repetition. In fact, over the entire post-war period, it was the climate of security and stability that United States power provided that enabled economic growth to germinate and flourish in Southeast Asia and across East Asia. When the dust has settled, historians will discern the decisive contribution the United States made in the transformation of Southeast Asia. Contemporary leaders of Southeast Asia know that their present progress and prosperity would not have been but for the United States, holding the communists at bay, and seeding the economic growth of the non-communist countries.

The United States created this climate of stability in three different ways. Firstly, explicit treaty-based United States alliance relationships with Japan, South Korea, the Philippines and Thailand. Secondly, this was supplemented from the late 1980s with looser access

arrangements, such as those with Singapore. Thirdly, America's de facto strategic alliance from the early 1970s with China against a common Soviet threat was a major stabilising factor. The Cold War is over and these arrangements have to be updated. The United States is no longer willing nor able to bear the main burdens alone. Rapid economic growth across the Asia-Pacific has reordered relationships between the major powers. The United States has to settle its policy towards East Asia without the benefit of a clear common strategic purpose that prevailed before the Cold War ended. We are moving from charted to uncharted waters.

The emerging triangular relationship between the United States, Japan and China will define the basis for continuing economic growth and stability throughout East Asia. These relationships are multi-dimensional. They embrace a host of complex issues that are themselves undergoing changes and adjustments. This process is not to be taken for granted. The ARF is intended to ease the stress and encourage a predictable pattern of relationships among the major powers. The ARF's record so far is promising. Whether it will ultimately succeed is still too early to forecast. But ASEAN's commitment to ARF should be a positive factor. ASEAN has benefited from the United States in many ways. The ARF provides ASEAN an opportunity to help the United States and other major powers to be engaged and help maintain regional stability.

ASEAN has to continue to steer the ARF carefully. It will be a major challenge for ASEAN to manage a process which involves states of vastly greater powers and capability than the ASEAN countries. I venture to suggest that this challenge is less daunting than if ASEAN attempts to hold the major powers at an arm's length. We have decided to seek ways of integrating the major powers as essential factors for a Southeast Asian balance of power. One way of doing this is through their association with

the Treaty of Amity and Cooperation in Southeast Asia. Indeed, as ASEAN gained in confidence, concepts of the 1970s such as a Southeast Asia Nuclear Weapon Free Zone (SEANWFZ) and a Zone of Peace, Freedom and Neutrality (ZOPFAN), which were initially devised to deal with Cold War problems, have already been substantially reoriented to keep them relevant to the post-Cold War environment. For ASEAN, the issue now is not how to avoid entanglement in big power conflict. It is how to maintain a stable balance of the major powers at a time of immense fluidity.

But whatever the outcome, the United States remains an indispensable factor of any new configuration for peace, security and economic growth in the Asia-Pacific. Only the United States has the strategic weight, economic strength and political clout to hold the ring in the Asia-Pacific. Yet we recognise that after the strenuous efforts of the Cold War, the United States is now undergoing a more introspective phase. We do not take its continued military engagement in the Asia-Pacific for granted. Some interpret such introspection as a symptom of decline. Others have regarded it as systemic pessimism about the future, highlighting structural problems which could rob America of its competitiveness. We believe that America has the innate strength and drive to revive and restore its energy and zest.

Southeast Asia's most important task is to make the American people aware that Southeast Asia today represents not a burden but a great opportunity. These opportunities in Southeast Asia have barely penetrated the consciousness of the American electorate. Southeast Asian countries must work with the United States at all levels: the American Government, Congress, business, and through the media, the people, to create a new awareness of the mutual benefits of United States participation in Southeast Asia's high growth. Participation must be made politically

attractive. The United States should engage itself in the region because benefits will flow to both the United States and ASEAN.

I had earlier suggested that in the post-Cold War era, it is the bottom line that carries the most weight. ASEAN and the other countries of Southeast Asia can and must do more to enable America to benefit from the economic dynamism of the Asia-Pacific. They must open their markets to and encourage investments from America and set an example for the other larger markets of the region to also open their markets and allow America more investment opportunities. This can be a win-win arrangement and eminently feasible.

Southeast Asia has never, in its long history, been more cohesive, confident and prepared to meet the future. This would not have been without America's leadership and efforts in the last half century. The United States has laid the foundations for our growth and prosperity. It is therefore in the interest of Southeast Asian countries to ensure that America remains engaged in the region. And it is in Southeast Asia's interest to ensure that America continues to be associated with the region as it is about to blossom as fully developed countries.

Mr Chairman, in conclusion, I hope that I have convinced you that it is in the interest of the United States to continue to remain firmly and strategically engaged in Southeast Asia. The economic opportunities in Southeast Asia await American business. The US Commerce Department has added ASEAN to its list of the top 10 emerging markets. We in Southeast Asia want America to be our economic partners. We are counting on Americans to take the long view and to make use of their economic and political assets in Southeast Asia. There is an enormous reservoir of goodwill for America in the region upon which you can build on.

* * * * *

TABLE 1
Southeast Asia: Per capita GDP (US\$)

	1965	1975	1985	1994
Malaysia	260	750	2050	3520
Thailand	120	340	830	2210
Indonesia	85	250	530	880
Philippines	150	380	600	960
Singapore	450	2340	7420	23360
Brunei	1080	6100	17580	14240
Vietnam	110	130	na	190
Cambodia	120	70 [1974]	na	190
Laos	65	90	290	320
Myanmar	65	110	190	213 [1992]

Source : World Bank publications; national sources

Compiled by : Monetary Authority of Singapore

TABLE 2
Southeast Asia: Economic Growth Rates (% p.a.)

	1965-75	1976-85	1986-95
Malaysia	7.5 [1971-75]	6.9	7.8
Thailand	7.5	6.7	9.3
Indonesia	7.0 [1966-75]	6.3	6.6
Philippines	5.5	2.5	3.5
Singapore	10.8	7.4	8.5
ASEAN-5 (Average)	7.7	6.0	7.1
Brunei	na	3.7	0.9
Vietnam	1.9 [1966-75]	4.3 [1976-84]	6.0
Cambodia	-3.1 [1966-74]	na	5.1
Laos	4.6 [1965-74]	4.4 [1977-85]	5.4
Myanmar	2.9	5.4	2.0
Southeast Asia 10 (Average)	5.0	5.3	5.4

Source: World Bank and Asian Development Bank publications; national sources

Compiled by: Monetary Authority of Singapore

TABLE 3
Southeast Asia: Share of Manufacturing Sector in GDP (%)

	1965	1975	1985	1994
Malaysia	9	16	20	33 [1995]
Thailand	16	19	22	29
Indonesia	8	9	16	24
Philippines	22 [1967]	25	25	23
Singapore	15	23	22	25 [1995]
Brunei *	56	87	69	41 [1990]
Vietnam	11	7 [1972]	28	22 [1993]
Cambodia	11 [1966]	na	7	5 [1993]
Laos	na	5	8	13 [1993]
Myanmar	9	9	10	7

* Including mining & quarrying. Data for industry are not separately available.

Source: World Bank and Asian Development Bank publications; national sources

Compiled by: Monetary Authority of Singapore

TABLE 4(a)
Southeast Asia 10 : Value of Trade (US\$ Million)

	Total			
	1965	1975	1985	1994
Malaysia	2360 a	7332	27709	118303
Thailand	1356	5398	16383	96081
Indonesia	1287	11872	28872	68547
Philippines	1661	5976	9965	35967
Vietnam	391	835	931 b	13313
Myanmar	472	408	585	2348
Cambodia	208	123	32	1283
Laos	48 a	76	71	943
Brunei	124 c	1322	3540	5304
Singapore	2580 c	13509	49049	198629
Southeast Asia 10	10487	46851	137137	540718

Notes : a 1966 b 1986 c 1967

Source : IMF Direction of Trade Statistics Yearbook - various issues

Compiled by: Monetary Authority of Singapore

TABLE 4(b)
Southeast Asia 10 : Direction of Trade

	US				Japan				EU-12				China				India			
	1965	1975	1985	1994	1965	1975	1985	1994	1965	1975	1985	1994	1965	1975	1985	1994	1965	1975	1985	1994
	% Share																			
Malaysia	9.8	13.5	13.9	18.9	16.0	17.1	23.9	19.4	15.2	23.5	15.4	14.6	NA	2.7	1.5	2.8	2.4	1.0	1.1	0.8
Thailand	13.4	13.3	15.0	18.5	25.6	30.5	20.8	25.0	15.2	18.1	17.6	18.4	NA	0.7	3.0	2.5	5.3	1.0	0.6	0.8
Indonesia	15.4	21.4	20.0	13.8	27.9	38.8	38.9	29.4	32.3	11.2	10.8	18.1	NA	1.7	1.2	3.8	0.1	0.5	0.2	0.7
Philippines	39.8	24.8	30.2	25.0	25.9	31.2	16.3	20.8	17.8	12.9	11.5	12.9	NA	1.2	3.7	1.3	0.1	0.3	0.2	0.4
Singapore	6.2	15.0	18.0	17.0	8.9	13.6	13.5	14.7	15.4	7.4	11.6	13.0	NA	2.4	5.3	2.5	1.0	0.7	1.4	1.0
Brunei	3.4	10.3	8.7	8.6	2.7	65.8	54.1	23.1	12.2	4.5	3.1	26.5	NA	0.4	0.3	0.3	0.1	0.0	0.0	0.0
Vietnam	41.8	28.9	3.6	1.8	5.3	15.3	25.9	14.5	13.4	17.0	14.1	13.6	NA	NA	0.0	4.1	0.0	NA	2.1	0.8
Cambodia	2.9	NA	NA	NA	11.1	NA	NA	NA	30.2	NA	NA	NA	NA	NA	NA	NA	0.4	NA	NA	NA
Laos	14.7	7.8	0.9	1.6	13.2	7.7	20.1	6.9	12.6	13.2	7.6	4.7	NA	NA	12.2	4.7	0.4	0.0	0.0	0.0
Myanmar	3.7	23.8	3.3	3.3	19.8	23.5	23.2	6.1	13.2	23.2	16.0	8.3	NA	9.0	2.2	22.8	10.6	3.5	1.4	5.6
Southeast Asia 10	15.6	17.6	17.7	16.9	18.2	26.3	23.2	19.8	18.1	13.0	12.7	14.7	NA	1.9	3.1	2.8	2.0	0.7	0.9	0.9

Source : IMF Direction of Trade Statistics Yearbook - various issues
Compiled by : Monetary Authority of Singapore

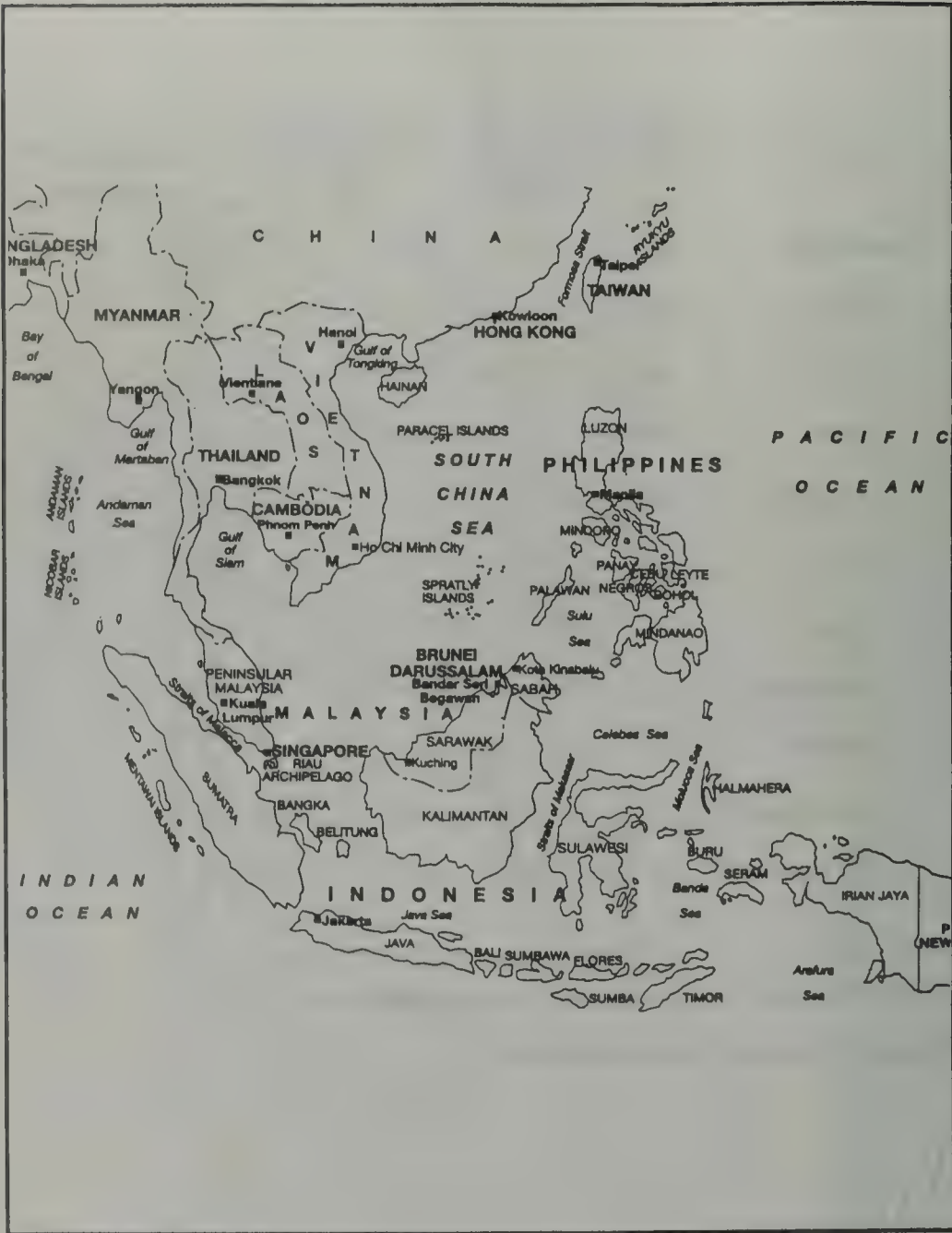
TABLE 5
Share in World Trade

	1965	1975	1985	1994	1965	1975	1985	1994
	US\$Billion				% of world trade			
World Trade	336.2	1630.6	3703.1	8499.5	100.0	100.0	100.0	100.0
Asia-Pacific	92.4	460.9	1369.5	3561.7	27.5	28.3	37.0	41.9
US	49.0	214.0	574.8	1201.7	14.6	13.1	15.5	14.1
Japan	16.6	114.0	307.7	669.3	4.9	7.0	8.3	7.9
South Korea	0.6	12.4	61.3	198.4	0.2	0.8	1.7	2.3
China	2.5	12.4	69.8	158.1	0.7	0.8	1.9	1.9
Taiwan	1.0	11.3	50.8	180.4	0.3	0.7	1.4	2.1
Hong Kong	2.3	12.8	59.9	313.2	0.7	0.8	1.6	3.7
Australia	6.4	23.0	48.5	101.0	1.9	1.4	1.3	1.2
New Zealand	2.1	5.3	11.7	23.9	0.6	0.3	0.3	0.3
SE Asia 10	9.5	46.9	137.2	540.7	2.8	2.9	3.7	6.4

Source: IMF Direction of Trade Statistics Yearbook - various issues

Compiled by: Monetary Authority of Singapore

SOUTHEAST ASIA



U.S. DEPARTMENT OF STATE

Office of the Spokesman

For Immediate Release
FINAL VERSION

May 10, 1995

STATEMENT BY CHRISTINE SHELLY/ACTING SPOKESMAN

SPRATLYS AND THE SOUTH CHINA SEA

The United States is concerned that a pattern of unilateral actions and reactions in the South China Sea has increased tensions in that region. The United States strongly opposes the use or threat of force to resolve competing claims and urges all claimants to exercise restraint and to avoid destabilizing actions.

The United States has an abiding interest in the maintenance of peace and stability in the South China Sea. The United States calls upon claimants to intensify diplomatic efforts which address issues related to competing claims, taking into account the interests of all parties, and which contribute to peace and prosperity in the region. The United States is willing to assist in any way that claimants deem helpful. The United States reaffirms its welcome of the 1992 ASEAN Declaration on the South China Sea.

Maintaining freedom of navigation is a fundamental interest of the United States. Unhindered navigation by all ships and aircraft in the South China Sea is essential for the peace and prosperity of the entire Asia-Pacific region, including the United States.

The United States takes no position on the legal merits of the competing claims to sovereignty over the various islands, reefs, atolls and cays in the South China Sea. The United States would, however, view with serious concern any maritime claim, or restriction on maritime activity, in the South China Sea that was not consistent with international law, including the 1982 United Nations Convention on the Law of the Sea.

FINAL VERSION

EAP PRESS GUIDANCE
May 10, 1994

SPRATLYS/SOUTH CHINA SEA

Q1. Why are you issuing this guidance now?

A. -- THOUGH THE LEVEL OF TENSION IN THE REGION HAS ABATED SOMEWHAT IN RECENT WEEKS, THE SERIES OF UNILATERAL ACTIONS AND REACTIONS BY VARIOUS CLAIMANTS OVER THE PAST FEW MONTHS HAS RAISED TENSIONS IN THE REGION. THIS HAS LED TO THE INCREASED RISK OF AN ACCIDENTAL CLASH OF FORCES OR OUTBREAK OF HOSTILITIES. GIVEN OUR INTERESTS IN MAINTAINING PEACE AND FREEDOM OF NAVIGATION IN THE REGION, IT IS IMPORTANT TO HAVE U.S. VIEWS CLEARLY STATED. WE WANTED TO CLARIFY THAT WE HAVE NO POSITION ON THE LEGAL MERITS OF COMPETING SOVEREIGNTY CLAIMS TO THE ISLANDS IN THE SOUTH CHINA SEA, BUT HAVE A POSITION UNDER 1982 UN CONVENTION ON LAW OF THE SEA ON POTENTIAL MARITIME CLAIMS.

Q2. Are you not really taking aim at China here?

A. -- NO. OUR POSITION IS ADDRESSED TO ALL CLAIMANTS.

Q3. What do you think about the claim of country "X"?

A. -- WE TAKE NO POSITION ON THE LEGAL MERITS OF COMPETING SOVEREIGNTY CLAIMS TO THE ISLANDS IN THE SOUTH CHINA SEA. AS FOR ANY MARITIME CLAIM, WE DO NOT THINK IT WOULD BE HELPFUL TO ENGAGE HERE IN A TECHNICAL DISCUSSION OF OUR VIEWS ON THE VALIDITY OF EACH EXISTING OR POTENTIAL CLAIM UNDER THE LOS CONVENTION.

-2-

Q4: What is the U.S. position on construction/settlement activities in the Spratlys?

A: -- AS WE MAKE CLEAR IN OUR STATEMENT, WE URGE ALL CLAIMANTS TO EXERCISE RESTRAINT AND TO AVOID DESTABILIZING ACTIONS.

Q5: Is this part of some new U.S. diplomatic initiative?

A: -- NO. THE STATEMENT IS A CLARIFICATION OF THE USG POSITION ON THE SPRATLYS AND SOUTH CHINA SEA AND REFLECTS THE CONCERN THAT THE UNITED STATES HAS HAD FOR SOME TIME OVER DEVELOPMENTS IN THE REGION.

Q: Have you communicated this "clarification" to other countries, including Spratlys claimants?

A: -- YES. WE HAVE CONTACTED ALL SPRATLY CLAIMANTS -- BRUNEI, CHINA, MALAYSIA, THE PHILIPPINES, TAIWAN AND VIETNAM -- AND INTERESTED NONCLAIMANT COUNTRIES.

Q7: What are you prepared to do about following-up on this statement/clarification? What does "serious concern" mean? For example, will the navy and/or air force undertake exercises to challenge maritime claims?

A: -- WE ARE NOT IN A POSITION TO COMMENT ON POSSIBLE USG ACTION IN THE CASE OF HYPOTHETICAL SITUATIONS. THE POINT OF THE STATEMENT IS TO UNDERScore LONG-STANDING U.S. POLICY REGARDING OUR NAVIGATION AND OVERFLIGHT RIGHTS AND FREEDOMS ON A WORLD-WIDE BASIS THAT IS CONSISTENT WITH THE BALANCE OF INTERESTS REFLECTED IN THE UN LAW OF THE SEA CONVENTION.

-3-

Q8: Is navigation by ships and aircraft through the South China Sea presently being hindered?

A: -- NO. SHIPS AND AIRCRAFT TRANSIT THROUGH, AS WELL AS, IN THE CASE OF MILITARY SHIPS AND AIRCRAFT, CONDUCT VARIOUS TRAINING EXERCISES, IN THE SOUTH CHINA SEA WITHOUT HINDRANCE.

Q9: While you "take no position" on the claims to the Islands, are you not challenging China's "dashed line" or "historic waters" claim to the South China Sea. Is that correct?

A: -- NO. TO OUR KNOWLEDGE, CHINA HAS NOT MADE A FORMAL CLAIM TO THE WHOLE SOUTH CHINA SEA AS ANY KIND OF MARITIME JURISDICTION. WE THEREFORE ARE NOT IN A POSITION TO COMMENT ON A CLAIM THAT HAS NOT BEEN FORMALLY MADE OR ON POSSIBLE USG ACTION IN THE CASE OF A HYPOTHETICAL SITUATION.

IF PRESSED:

-- WE EMPHASIZE THAT OUR STATEMENT IS NOT DIRECTED AT ANY ONE CLAIMANT. THE LONGSTANDING WORLD-WIDE POLICY OF THE UNITED STATES IS NOT TO ACCEPT ANY MARITIME CLAIM OR RESTRICTION ON MARITIME ACTIVITY THAT IS INCONSISTENT WITH INTERNATIONAL LAW, INCLUDING THE 1982 UNITED NATIONS CONVENTION ON THE LAW OF THE SEA.

Q10: Is there any other claim in the South China Sea region that is not consistent with the LOS?

A: -- THE UNITED STATES FROM TIME TO TIME HAS MADE ITS VIEWS KNOWN TO CLAIMANTS FORMALLY ADVANCING MARITIME CLAIMS WE REGARD AS INCONSISTENT WITH THE LAW OF THE SEA CONVENTION. HOWEVER, WE DO NOT THINK IT WOULD BE HELPFUL TO ENGAGE HERE IN A TECHNICAL DISCUSSION OF OUR VIEWS ON THE VALIDITY OF EACH EXISTING OR POTENTIAL CLAIM UNDER THE LOS CONVENTION.

Q11: Isn't China's claim to the South China Sea based on its claim to all the islands? Does this mean that you are also really challenging China's claim to the islands?

A: -- THE U.S. DOES NOT TAKE A POSITION ON THE LEGAL MERITS OF COMPETING SOVEREIGNTY CLAIMS TO ISLANDS IN THE SOUTH CHINA SEA. WE SUGGEST THAT YOU ASK THE CHINESE GOVERNMENT FOR AN EXPLANATION OF CHINA'S CLAIMS.

Q12: You say you support diplomatic efforts to resolve this issue peacefully. China has reportedly expressed its desire to deal with this issue bilaterally. What is your reaction to that?

A: -- AS WE STATED, THE UNITED STATES SUPPORTS ANY DIPLOMATIC EFFORTS AIMED AT PEACEFUL RESOLUTION OF COMPETING CLAIMS, INCLUDING THE INDONESIAN WORKSHOPS. WHETHER SUCH EFFORTS ARE BILATERAL OR MULTILATERAL IN NATURE, THE U.S. IS CONCERNED THAT SUCH EFFORTS CONTINUE IN SUCH A WAY THAT TAKE INTO ACCOUNT THE INTERESTS OF ALL CLAIMANTS.

-5-

Q13: You say you would be strongly opposed to any use of force in the region. What is the United States prepared to do to prevent this? Hasn't force already been used? What are you going to do about it?

A: -- OUR DESIRE IS TO ENCOURAGE AN ACTIVE AND PRODUCTIVE DIPLOMATIC PROCESS AMONG THE CLAIMANTS AND TO HELP AVOID ANY INTENTIONAL OR ACCIDENTAL CLASH OR RESORT TO FORCE. WE ARE NOT IN A POSITION TO COMMENT ON A HYPOTHETICAL SITUATION.

IF PRESSED WITH REGARD TO SEIZURE OF FISHING BOATS AND VESSELS:

-- THE FIRING UPON AND SEIZURE OF FISHING VESSELS BY CLAIMANTS IN THE SOUTH CHINA SEA IS AN EXAMPLE OF THE TYPE OF RECENT UNILATERAL ACTIONS AND REACTIONS REFERRED TO IN OUR STATEMENT. THIS PATTERN OF CONDUCT RAISES TENSIONS IN THE REGION. AGAIN, WE REITERATE THAT WE STRONGLY OPPOSE THE USE OR THREAT OF FORCE TO RESOLVE COMPETING CLAIMS AND URGE ALL CLAIMANTS TO EXERCISE RESTRAINT, AVOID DESTABILIZING ACTIONS AND USE LEGAL OR DIPLOMATIC MEANS TO RESOLVE DIFFERENCES.

Q14: Why isn't the U.S. prepared to take a more active diplomatic role on this issue?

A: -- THE COMPETING SOVEREIGNTY CLAIMS ARE AN ISSUE FOR THE CLAIMANTS TO RESOLVE AMONG THEMSELVES. NONCLAIMANTS IN THE SOUTH CHINA SEA REGION HAVE IMPORTANT INTERESTS IN SEEING THAT THESE COMPETING CLAIMS ARE RESOLVED PEACEFULLY AND IN A MANNER CONSISTENT WITH INTERNATIONAL LAW. THE UNITED STATES IS NOT PLANNING TO TAKE AN ACTIVE ROLE UNILATERALLY IN THIS DISPUTE. HOWEVER, WE HAVE ON MANY OCCASIONS REITERATED OUR OFFER TO HELP IN THE PEACEFUL RESOLUTION OF THE COMPETING CLAIMS IF REQUESTED BY THE PARTIES.

Q15: What does the 1992 ASEAN Declaration say, and how is it consistent/inconsistent with USG policy?

A: -- THE 1992 ASEAN DECLARATION ON THE SOUTH CHINA SEA WAS SIGNED IN MANILA ON JULY 22, 1992. AMONG OTHER THINGS, THE DECLARATION EMPHASIZES THE NECESSITY TO RESOLVE ALL ISSUES RELATED TO THE SOUTH CHINA SEA BY PEACEFUL MEANS, URGES PARTIES TO EXERCISE RESTRAINT, AND DIRECTS PARTIES TO EXPLORE POSSIBILITIES OF COOPERATION. FOR A DETAILED DESCRIPTION OF WHAT THE DECLARATION SAYS WE SUGGEST THAT YOU CONTACT ASEAN DIRECTLY.

Q16: What is the U.S. position on joint development? Does the U.S. agree with China's call for joint development?

A: -- OUR DESIRE IS TO ENCOURAGE, AMONG CLAIMANTS, AN ACTIVE AND PRODUCTIVE DIPLOMATIC PROCESS THAT ADDRESSES ISSUES RELATED TO COMPETING CLAIMS, TAKING INTO ACCOUNT THE INTERESTS OF ALL PARTIES, AND THAT CONTRIBUTES TO PEACE AND PROSPERITY IN THE REGION. SPECIFIC PROPOSALS ARE FOR THE CLAIMANTS THEMSELVES TO EVALUATE AND CONSIDER.

Q17: What is the U.S. position about U.S. companies drilling in the South China Sea under contract to China or Vietnam? Does the U.S. side with Vietnam and against China in the dispute?

A: -- WE HAVE INFORMED U.S. COMPANIES OF THE COMPETING CLAIMS AND HAVE STRONGLY RECOMMENDED THAT US CITIZENS AND COMPANIES ACT WITH PRUDENCE IN DISPUTED AREAS; WE HAVE POINTED OUT THE RISKS OF CONDUCTING ON-SITE ACTIVITIES IN THESE AREAS UNTIL THE CLAIMANTS HAVE FIRST REACHED AGREEMENT ON THEIR DEVELOPMENT.

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Q18: Will the USG come to the assistance of the Philippines, a U.S. treaty ally, in the event it is attacked in connection with a dispute over the Spratlys?

A: -- WE ARE NOT IN A POSITION TO COMMENT ON POSSIBLE USG ACTION IN THE CASE OF A HYPOTHETICAL SITUATION.

IF PRESSED:

-- THE UNITED STATES HONORS ITS TREATY COMMITMENTS. HOWEVER, WE ARE NOT IN A POSITION TO COMMENT ON POSSIBLE USG ACTION IN THE CASE OF A HYPOTHETICAL SITUATION.

Questions for the Record
Submitted by Representative Kim
May 30, 1996
Southeast Asian Security Hearing

1. What has the Department of State done to reduce staffing at Embassy Manila since the closure of Clark Air Force Base and Subic Bay Naval Base?

Answer

Over the last five years, the U.S. mission in the Philippines as a whole has reduced its full-time equivalent, direct-hire staffing of American positions by 34 percent. The Joint U.S. Military Advisory Group, for example, has reduced staffing commensurate with the scale-back in military assistance and support component of our bilateral relationship. Similarly, USAID has reduced American direct-hire and contract positions as our development assistance has diminished.

Reductions in the staffs of these and other agencies represented in Manila have progressed at a prudent pace, maintaining the minimum number of American officers and staff sufficient to support each agency's mission without jeopardizing the attainment of essential goals and objectives.

The Department of State reduced its presence in the Philippines substantially during fiscal years 1994 and 1995. The number of our American direct-hire positions in the Philippines went from 108 to 91. Foreign Service National positions were reduced from 308 to 233. In addition, we closed the Consulate at Cebu on October 1, 1995.

Looking toward the future, the Department and Embassy Manila will continue to examine downsizing options. The Bureau of East Asian and Pacific Affairs is currently conducting a review of its Foreign Service positions that will certainly result in the abolishment of some American direct-hire positions at Embassy Manila.

Moreover, Embassy Manila is actively exploring other means of streamlining, such as employing American family members through the Department's Professional Associates program. Other agencies with substantial representation in the Philippines are undertaking similarly stringent personnel downsizing reviews.

Question for the Record
Submitted by Representative Royce
May 30, 1996
Southeast Asian Security Hearing

Question

Please provide a complete report on the case of Binh Tran, an American citizen origin who has only recently been released from prison. Anaheim newspapers are reporting that Americans don't get decent treatment in the Vietnamese legal system and that Embassy Hanoi doesn't help them.

Answer

One of the most important tasks of the Department of State and of our embassies and consulates abroad is to assist U.S. citizens arrested overseas. We are committed to this responsibility, which includes periodic visits by the consular officer, monitoring emergency dietary and medical needs, and acting as a liaison in communications with family members.

The U.S. Government is concerned about the treatment and welfare of all U.S. citizens, whether imprisoned in Vietnam or elsewhere, regardless of whether the citizen holds another nationality at the same time, and regardless of the citizen's original nationality. Unfortunately, U.S. citizens who are dual nationals and are traveling to the country of their other nationality may experience special problems if the country of the other nationality chooses to recognize only that nationality.

Ms. Tran was arrested in Ho Chi Minh City by the Vietnamese authorities in October 1993 on charges of tax evasion on the export of cigarettes. In June 1995, she was sentenced to four years imprisonment and a \$182,000 fine.

On April 24, 1996 she was released, following a request by the U.S. Embassy based on her poor health, but she has not been permitted to depart Vietnam pending payment of the fine. The Embassy sent a letter to the local court on her behalf on May 24. On June 11, when the Embassy learned that her fine had been raised and that she is required to pay it within a week or return to jail, the Embassy approached the Vietnamese Ministry of Foreign Affairs. The Embassy urged that Vietnamese authorities allow Ms. Tran to return to the U.S. on her own recognizance or ensure that she is not sent back to jail while the MFA reviews her case.

<u>Name</u>	<u>Sentence</u>	<u>Citizenship</u>	<u>U.S. Location</u>
1. Do Hong Van (Muoi Thai)	18 years	U.S. Citizen	Santa Ana
2. Do Huon (Monier Bui)	Life	Permanent Res.	Rialto
3. Ly Tong (Le Van Tong)	20 years	U.S. Citizen	Arizona
4. Nguyen My	Unknown	Permanent Res.	Northridge
5. Nguyen Thanh Van	9 years	Permanent Res.	Westminster
6. Nguyen Van Muon (Michael)	Life	Naturalized Cit.	Ontario
7. Pham Duc Hau	18 years	Naturalized Cit.	Los Angeles
8. Tran Manh Quynh (Jimmy)	20 years	U.S. Citizen	San Jose
9. Tran Tu (Peter)	Life	U.S. Citizen	Ontario
10. Ba Tran Nguyen Binh	4 years	U.S. Citizen	Anaheim

TOTAL P.01

Question for the Record
Submitted by Representative Rohrabacher
May 30, 1996
Southeast Asian Security Hearing

Question

Here is a list of 10 American citizens or permanent residents of Vietnamese origin who are in jail in Vietnam. Please provide a report on the status of each case and explain why the Department of State does not treat these cases with as much concern as they give to other American citizens and residents.

Answer

The U.S. Government is concerned about the treatment and welfare of all U.S. citizens, whether imprisoned in Vietnam or elsewhere, regardless of whether the citizen holds another nationality at the same time, and regardless of the citizen's original nationality. Unfortunately, U.S. citizens who are dual nationals and are traveling to the country of their other nationality may experience special problems if the country of the other nationality chooses to recognize only that nationality.

Except where the U.S. serves as the protecting power for another country, the U.S. Government does not have agreements with foreign countries that permit the U.S. to provide consular protection to non-U.S. citizens, such as U.S. legal permanent residents, and the Department does not provide consular services to them. For that reason, the Department does not maintain records on prisoners who are legal permanent residents.

Of the ten persons listed, five are not U.S. citizens (Do Hong van, Do Huon, Nguyen My, Nguyen Thanh Van, and Tran Tu). As noted above, we therefore do not maintain records on their imprisonment. Five of those listed are U.S. citizens.

-- Binh Thy Nguyen Tran (also known as Ba Tran Nguyen Binh) was arrested in Ho Chi Minh City by the Vietnamese authorities in October 1993 on charges of tax evasion on the export of cigarettes. In June 1995, she was sentenced to four years imprisonment and a \$182,000 fine. On April 24, 1996 she was released, following a request by the U.S. Embassy based on her poor health, but she has not been permitted to depart Vietnam pending payment of the fine.

The Embassy sent a letter to the local court on her behalf on May 24. On June 11, when the Embassy learned that her fine had

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been raised and that she is required to pay it within a week or return to jail, the Embassy approached the Vietnamese Ministry of Foreign Affairs. The Embassy urged that Vietnamese authorities allow Ms. Tran to return to the U.S. on her own recognizance or ensure that she is not sent back to jail while the MFA reviews her case.

-- Ly Tong (Le van Tong) was convicted of hijacking and dropping leaflets, and is serving a 20-year sentence.

-- Nguyen van Moun (Michael) was convicted of attempting to overthrow the Vietnamese Government, and is serving a life sentence.

-- Pham Duc Hau was convicted of attempting to overthrow the Vietnamese Government, and is serving an 18-year sentence.

-- Jimmy Tran (Tran Manh Quynh) was convicted of attempted bombing and sabotage, and is serving a 20-year sentence.

Each of the currently incarcerated Americans identified above were visited by a consular officer from the Embassy most recently in April.

U.S. ECONOMIC RELATIONS WITH SOUTHEAST ASIA
Hearing before Asia and the Pacific Subcommittee
Rep. Howard L. Berman
June 19, 1996

I welcome this hearing on economic relations with Southeast Asia.

Too often American attention to Asia has focussed on security issues. Yet, it is the growing economic linkages between the American economy and the Pacific Basin countries which is rapidly becoming the primary basis for our interest in the region.

This is especially true in Southeast Asia where, since the end of the Vietnam War, there has been a decrease in the American military presence while a substantial increase in the American economic presence.

U.S. exports to the Association of Southeast Asian Nations (ASEAN) grew by 100% between 1989 and 1994.

We have perhaps learned that butter can win wars sometimes better than guns.

In 1995, Vietnam became the first communist country to join ASEAN. Other than Brunei, Vietnam is the only other ASEAN country with which the U.S. maintains a positive trade balance.

The U.S., however, is not alone in seeking out these new markets. More aggressive targetting by our European competitors which is matched by a substantial increase in intra-regional trade mean that in the future we can not take Southeast Asian markets for granted.

As Dr. Noland, one of today's witnesses, notes, the U.S. will need to work more effectively through multilateral institutions to secure our national interests in these increasingly competitive markets.

Rather than seeking ways to eliminate the Commerce Department, cut support for multilateral institutions and slash our bilateral trade and aid programs, the Congress should be seeking ways to enhance their effectiveness to the benefit of American workers and businesses.

I thank our witnesses for being here and look forward to their testimony.

STATEMENT OF PAUL WOLFOWITZ

DEAN OF THE PAUL H. NITZE SCHOOL OF ADVANCED
INTERNATIONAL STUDIES
OF
THE JOHNS HOPKINS UNIVERSITY

FOR THE

HOUSE COMMITTEE ON INTERNATIONAL RELATIONS

SUBCOMMITTEES ON ASIA & THE PACIFIC AND INTERNATIONAL
ECONOMIC POLICY & TRADE

JOINT HEARING ON U.S. RELATIONS WITH SOUTHEAST ASIA

June 19, 1996

Mr. Chairman, Distinguished Members of the Asia Pacific and International Economic Subcommittees:

It is a privilege to be able to address this important body on the subject of U.S. relations with Southeast Asia. Mr. Chairman, you have asked me to present, from both a political and economic perspective, American interests in the region.

I particularly welcome the opportunity to do that -- and salute this committee for the wisdom shown in selecting this subject -- because I believe that it is safe to say that there is no region of the world that is as important for U.S. interests about which Americans, even relatively well-informed Americans, are so frequently ignorant.

What we do know of Southeast Asia is frequently a residue of the war in Vietnam which was unquestionably a terrible experience for us as a country and for the many individuals whose lives were damaged by it. That experience no doubt leaves in many peoples' minds the conclusion that this is a part of the world that the United States might better avoid. Perhaps it also leaves with some a feeling that our involvement there was the consequence of an exaggerated view of the strategic importance of Southeast Asia.

Without reopening any of the old debates about America's involvement in the Vietnam War, it is nevertheless important to emphasize how profoundly the region has changed in the two decades since our military forces withdrew. Two changes in particular are important to emphasize:

1) Southeast Asia is no longer a vale of troubles and tribulations. To the contrary, it is a region of enormous opportunity. It has become almost a cliché to observe that the "dominoes" which we once feared would fall if the Communists succeeded in conquering Indochina, have become "dynamamos" of economic growth, rapidly entering the ranks of the newly industrialized nations. Particularly because that economic growth has been the product of relatively open, market-oriented economic policies, the opportunities for foreign trade and investment have grown along with the economies of the region, indeed perhaps a bit faster.

For example, during the last ten years the five original members of ASEAN -- the Association of Southeast Asian Nations -- grew at a combined average rate of roughly 7%, an extraordinary record by almost any standard. Yet American exports to the region have been growing at an even faster rate -- for example, an astonishing 90 percent growth in the five years from 1991-1995, an average of 14% per year.

2) The strategic importance of Southeast Asia is changing, and growing, because the whole Asia Pacific Region is changing. In the past, Southeast Asia was important because of its strategic resources. Some might even argue that Japan went to war in 1941 in order to secure the oil and rubber supplies of the region. But that is of relatively minor significance today. What is becoming increasingly important is that Southeast Asia is an important part of the Asia Pacific region as a whole, a region that is rapidly gaining in strategic importance because of the enormous economic growth of the region. Perhaps no part of that overall picture is as important as China which is widely predicted to emerge as a true superpower sometime in the early part of the next century. There is probably no greater challenge for the international system and no

greater task that is more critical to peace and stability of this vast region -- and even of the whole world -- than accommodating the emergence of this newly and powerful China in a peaceful manner. In that task Southeast Asia assumes a new and special political importance, because the region borders directly on China and, indeed, many of the nations of Southeast Asia have disputes with China over the maritime boundaries of the region. Whether China can develop peaceful relations with Southeast Asia will do much to determine whether China can develop peaceful relations with the rest world.

In the past, Southeast Asia has been important as the source of scarce products and because of the importance of the sea lanes passing through it. In the sixteenth century it was the source of cloves and nutmeg -- hence the term "Spice Islands" -- in the mid-twentieth century, as noted, countries fought over its oil resources. Throughout, the sea lanes of Southeast Asia have been critical to commerce, and they will continue to be the route through which almost all of Japan's energy supplies, and an increasing share of China's, flow from the Middle East.

However, increasingly Southeast Asia will be most important because of its very large numbers of highly productive people, who are turning the economies of Southeast into some of the largest in the world.

When I was The U.S. Ambassador to Indonesia, I was continually surprised at how many Americans had barely even heard of this large and important country. But even among well-informed people it frequently came as a surprise to learn that Indonesia is now -- after the demise of the Soviet Union -- the fourth largest country in the world, with a population of 190 million (90% of whom are Moslems, making it the largest Moslem population of any country in the world) -- a substantially larger population even than Japan or Germany. It is only alongside its giant neighbors, China and India, that Indonesia looks small.

Perhaps Indonesia's size in turn obscures the fact that several other countries of Southeast Asia are large by European or world standards: Vietnam, with a population of 74 million, the Philippines with a population of 69 million, or Thailand with a population of 60 million.

Yet large populations, by themselves, do not make countries important, if those populations are poor and starving. Like China, what makes the countries of Southeast Asia important is that these large populations are rapidly becoming increasingly productive. If those growth rates continue, sometime in the next few decades their productivity will begin to approach that of the advanced industrial countries economies, as Singapore and Hong Kong have already done and as Taiwan and South Korea are on the verge of doing.

The combined population of the seven member countries of ASEAN (which now includes Vietnam) is nearly 420 million. If those countries achieve an average per capita productivity \$10,000, roughly the level of South Korea today, they will have a combined GDP of \$4.2 trillion. We are still many years away from that, but it is important to keep in mind where we seem to be heading, because it is having effects even today.

Against that background let me try to summarize what I view as the principal U.S. interests in Southeast Asia:

-- To begin with, our economic interests are large and growing. U.S. exports to the seven members of ASEAN were nearly \$40 billion last year (1995) and our imports from the region were over \$60 billion. We have a great commercial interest in the continuation of this extraordinary economic growth and we also have an interest in the increasing adoption of open trade and commercial practices by these countries. Those principles have been proven to be the basis of the most rapid gains in economic productivity for the countries that adopt them. But they also are the best assurance that American producers will be able to compete in those markets on equal terms.

-- Second, the region is of great strategic importance, but its importance is best understood not in terms of resources or shipping lanes but rather in the following way: A Southeast Asia that is secure and stable and growing economically is a Southeast Asia that is likely to be at peace with its big and increasingly important neighbor to the north, China. Alternatively, if Southeast Asia is once again beset by the international wars and internal conflicts that were endemic to the region in the 1950's and 1960's, a newly powerful China might be tempted -- or might even feel compelled -- to intervene militarily in the affairs of the region.

Thus, the United States has a major interest in the continued stability of the region and in seeing the Southeast Asian countries achieve what they themselves call "regional resilience" and "national resilience," the creation of peaceful relations within and between countries based on economic strength and successful dispute resolution,

-- Finally, the United States has an interest in seeing this large segment of humanity achieve the levels of individual prosperity and freedom that we and other citizens of advanced industrial countries enjoy today. This is not simply a humanitarian concern, although we should not minimize the humanitarian benefits that come from lifting millions of people out of poverty as the Southeast Asian nations are doing today. The success of the Southeast Asian nations can have wider effects in pointing the way to other developing countries struggling to escape from poverty and economic stagnation. Perhaps because I spent three years in Indonesia as the American Ambassador, I am particularly impressed by the potential influence that Indonesia's economic success, along with the even more impressive record, although much smaller, of Malaysia, might have on the rest of the Moslem world. But I think more broadly that the countries of Southeast Asia are increasingly influential examples of how to achieve successful economic growth, and that the whole world will be a better place if that example can be more widely followed.

Prepared Testimony of Mr. George David
before the
Subcommittee on Asia and the Pacific
House Committee on International Relations
June 19, 1996

Chairman Bereuter, Ranking Member Berman, my name is George David. I am the CEO of United Technologies Corporation and chairman of the US-ASEAN Council. It is a pleasure and an honor to share with you my thoughts about engagement with the economies of the world, and especially with those in the ASEAN region.

I commend this committee and you, Mr. Chairman, for your active support for American companies in the international arena, specifically through your advocacy for the Export-Import Bank. Chairman Roth and Representative Gejdenson also especially deserve recognition for their fine efforts.

It is a cliché to talk about globalization and the increasing interdependence of nations. These words are so commonplace that they no longer convey the power of events taking place around us, and the truly extraordinary opportunities these present to our nation and our world.

In the past fifty years, the world's economy has grown impressively, from \$2 trillion in 1946 to \$28 trillion last year.

But contrast this with what is to come: in the next twenty years, the world's economies will explode from \$28 trillion to \$108 trillion annually; equal, by the way, to adding the equivalent of today's entire American economy to the world's total every two years for the next twenty.

Most of this new output will arise outside the United States. Our own economy will grow, but others will grow faster, with the net result that our share of the world total will reduce from today's 25% to about 17%.

But our influence and traditional world economic and political leadership need not and will not lessen correspondingly.

We know that a little over a quarter of the world's economy is tied up in trade, that is, goods made in one country for consumption in another. The world's economies benefit mightily from trade, and we do too, and even more so

for us because of our leadership in the highest technology products and exports.

Less well emphasized is that another quarter of world economic output results from foreign investment. Sales of subsidiaries or affiliates of American companies equal about 10% of total European GNP and exceed U.S. exports to Europe by a factor of seven. Similarly, our sales in Japan are about 4% of Japanese GNP and are half again more than our exports to that country, all the heat generated by the latter notwithstanding.

We care about these trade and investment facts for two reasons. First, the wealth generation around the world will occur with us or without us, but as participants we will share in that wealth generation, thereby assuring our abilities to provide incomes and employment security for all Americans. And second, by involvement in these economies, we persuade the peoples of the world, by example and by leadership, that our systems of government and business, systems based on constitutional protections, free elections, laws, and market economies work, and work well.

I can give you no more persuasive example than our shop steward in one of our plants in China: ten years ago, when I first met him or her, a ranking Communist Party member and leader; and now, so firmly committed to free markets and free peoples. And all of this based on persuasion by *facts*, that American principles work and work well.

This is a good opportunity for me to thank you, Mr. Chairman, for your leadership role in the ongoing debate about Most Favored Nation trading status for China. It is not the stated topic today, but it is crucial to U.S. interests and we deeply appreciate your support.

So my message today is straightforward: no fortress America, no fortress Europe, no walls erected with the misguided beliefs that they will keep the wealth in and the poverty out. Exactly to the contrary, America benefits mightily from engagement, and decisive engagement, with the peoples of the world.

Nowhere will these trends and requirements be more evident than in Asia and especially in the ASEAN nations. Just the latters' populations number today about half a billion, twice our own, and the outputs of these seven nations will reach a trillion dollars annually by the close of the century. The slowest growing of the ASEAN seven last year, the Philippines, grew at twice our rate, and the newest, Vietnam, at a full 10%.

I expect you can detect some passion in these remarks and, I believe, experience too. In passing, 55% of our company's \$23 billion in sales arise in markets outside the United States. We do business in all countries of the world save only seven. We have employees in 1,900 cities of the world, six times more overseas than our own State Department. And this global presence helps us decisively with exports and job creation back home, and high tech job creation at that. Our exports last year were more than \$3 billion and ranked us among the top ten companies nationwide on this measure. And the jobs generated by these exports are high tech, high wage, high benefit jobs, great jobs by any measure.

Our Government has two pivotal roles in international commerce, as it has hundreds in all fields and functions. First is our traditional advocacy and leadership in developing and maintaining free trade and open markets. This means unqualified support for and, as appropriate, funding for, the WTO, OECD, World Bank and the IMF.

Second is ensuring level playing fields in trade and investment across the world, and we do this with our Commerce Department, EXIM Bank and OPIC. I know these institutions personally, and well, and as the customer, I am here to tell you they are great, highly effective, and much needed!

Thank you for the privilege of making these comments. I will try to answer any questions you may have.

STATEMENT OF

Marcus Noland
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HEARINGS ON

UNITED STATES-SOUTHEAST ASIAN ECONOMIC RELATIONS

19 June 1996

House International Relations Committee
Subcommittees on Asian and Pacific Affairs and
International Economic Policy and Trade

The views expressed in this statement are those of the author and do not necessarily reflect the views of individual members of the Institute's Board of Directors or Advisory Committee.

UNITED STATES-SOUTHEAST ASIA ECONOMIC RELATIONS

It is an honor to appear before these Subcommittees. Today I intend to briefly discuss economic relations between the United States and the major countries of Southeast Asia. In my remarks I will make three main points:

- o The countries of Southeast Asia are likely to continue to grow in importance in the world economy, and specifically in the trade and investment relations of the United States.
- o While the relative importance of these countries will be growing from our perspective, the relative importance of the US as a trade and investment partner from their perspective will be shrinking.
- o As a consequence, the US may find it increasingly difficult to secure its national interests through unilateral action and may increasingly need to act in concert with other nations through multilateral institutions to achieve its goals.

ECONOMIC RELATIONS WITH SOUTHEAST ASIA

Over the past three decades, the countries of Southeast Asia have more than tripled their share of world production and income. This outstanding performance has been achieved largely by raising productivity by moving labor out of extremely low productivity traditional agriculture and into the emerging modern manufacturing and service sectors. This process will inevitably slow as the pool of labor in the traditional agricultural sectors and along with the stock of available technologies to be adopted from abroad dwindle. Moreover, some of these countries could experience political instability. Nevertheless, over the next decade even under the most pessimistic scenarios the major countries of Southeast Asia (Singapore, Malaysia, Thailand, Indonesia, and the Philippines) will continue to increase their share of world production and income.¹ The ongoing economic opening of Vietnam further strengthens this conclusion.

Last year total US trade with these countries was nearly \$100 billion, or 7.5 percent of US global trade, larger than our trade with Latin America (excluding Mexico), and about 40 percent of our trade with the European Union. Given the likely continued rapid rise in incomes in Southeast Asia, the region's share of US trade could rise to 10 percent within a decade.² Major US exports include aircraft, semiconductors, telecommunications equipment, and wheat. Major imports include footwear, consumer electronics, and semiconductors.

Our economic relationship is not limited to trade. The countries of Southeast Asia are a major destination for US investment. According to the most recent Department of Commerce survey, US firms have more than \$60 billion invested in affiliates in the region, accounting for more than \$70 billion in sales, and earning more than \$6 billion in profits. Contrary to some popular notions, these are not "export platforms" shipping products back to the US. Most of the production of these affiliates is sold either in the host market or in third country markets abroad, with only about 20 percent is shipped back to the US. On net, US investment in the region

¹ Marcus Noland, "Implications of Asian Growth," Working Paper in Asia-Pacific Cooperation 94-5, Washington: Institute for International Economics.

² Ibid.

stimulates exports from the US and in doing so raises wages here.³ The massive expected investment in infrastructural projects in the region should provide huge opportunities for US service providers and producers of associated capital goods.

While the bilateral relationships between the US and its Southeast Asian partners are growing, the economic relations among these countries and between themselves and third parties have been growing as well. Intraregional trade in Asia is steadily rising, propelled by the twin engines of rapid economic growth and trade and investment liberalization. Moreover, intraregional trade and investment is growing more rapidly than trade and investment with the US, and as a consequence, the relative importance of the US in the trade and investment relations of these countries is falling. There is nothing sinister about this -- domestic markets in the region are growing 2-4 times as fast as the US market, and it is quite natural that these countries will assume an increasingly important role in each others' economies. In the past the US and Japan were the major investors in the region, but over the past decade the major realignment of relative costs has spurred major investments by countries such as Taiwan and Korea whose light manufacturing industries are increasingly uncompetitive at home. All of this is creating a genuinely regionally integrated economy in Southeast Asia where the US is an important, but by no means predominant player.

The US continues to exert an important influence in the region through monetary ties. Most of the countries in the region officially maintain "basket pegs" in which the value of the domestic currency is tied to the value of several foreign currencies. And although there has been a good deal of talk lately about a "yen bloc" recent research indicates that it is the US, not Japan, that has the dominant influence in the determination of interest rates and exchange rates in the region.⁴ Most of the trade in the region is denominated in dollars (although the yen share is rising as Japanese manufacturers invoice their intra-firm trade in yen), and the dollar is still the predominant currency held by Southeast Asian central banks, though again there is some evidence that the dollars share may be declining slightly. Barring some major unforeseen calamity in US policy, Southeast Asia should remain on a de facto dollar standard for the foreseeable future.

TRADE RELATIONS

The economic relationship, though undoubtedly beneficial to both the US and the countries of Southeast Asia, is not without controversy. All of these countries pursued import substituting industrialization strategies in the past, and continue to pursue industrial development strategies.⁵ (Indeed, as they grow richer, the size and importance of these industrial policies may

³ Marcus Noland, "Trade, Investment, and Economic Conflict Between the US and Asia," manuscript, Washington: Institute for International Economics.

⁴ Jeffrey A. Frankel, "Is Japan Creating a Yen Bloc in the East Asia and the Pacific?" in Jeffrey A. Frankel and Miles Kahler editors, *Regionalism and Rivalry*, 1993, Chicago: University of Chicago Press.

⁵ Marcus Noland, *Pacific Basin Developing Countries: Prospects for the Future*, 1991, Washington: Institute for International Economics.

grow as well. The recent controversy over the Indonesian government's program to develop a national car is a case in point.) Yet relative to other developing countries at comparable income levels, they are relatively open. Singapore is virtually a free trade economy, while a 1987 World Bank has classified Malaysia and Thailand as "moderately outwardly oriented". This same study classified the Philippines and Indonesia as "moderately inwardly oriented", but these are the two economies in the region (along with Vietnam) which have undergone the most profound liberalizations in the intervening years. Indeed, the process of economic liberalization which began in Singapore in the late 1960s, Thailand and Malaysia in the 1970s, in the Philippines and Indonesia in the 1980s, and now Vietnam in the 1990s, has largely been undertaken unilaterally to improve economic efficiency, rather than through international negotiations. The point is not that these economies practice free trade or laissez faire -- they don't -- but rather that compared to other similar countries they are relatively open, and this openness has largely been undertaken unilaterally for domestic policy reasons.

Nevertheless, the trade and investment policies of these countries have at times brought them into conflict with the United States. The countries of Southeast Asia as a group receive more attention in the USTR's annual *National Trade Estimates of Foreign Trade Barriers* than would be warranted on the basis of their shares of world income or US trade alone.⁶ Among the barriers cited have been high tariffs, lack of intellectual property protection, and barriers to international trade in services. These barriers have received particular attention because of the bilateral surpluses these countries run with the United States, and the inter-industry character of much of the trade. (Inter-industry trade is trade in dissimilar products such as trading wheat for cloth. Intra-industry trade is trade in similar products such as trading sedans for stationwagons. Intra-industry trade is thought to be politically more less sensitive because it creates fewer adjustment problems for the import-competing sectors of both countries.) In the case of the countries of Southeast Asia, the prominence of inter-industry trade and their bilateral surpluses with the US have acted as political lightning rods in the US.

Economic negotiations in the past have been characterized by an emphasis on public, bilateral diplomacy by the US, though the development of the Association of Southeast Asian Nations (ASEAN) has created an element of group cohesion for the Asians. The US approach has allowed the US to set the agenda unilaterally and, at least in the short-run, to secure US goals. Yet the public nature of US economic diplomacy has given these disputes a zero-sum air, and has created resentments throughout the region for what is seen as bullying. As the Southeast Asian's dependence on the US market declines, the efficacy of these tactics may decline as well.

MULTILATERAL INSTITUTIONS

There are four multilateral economic institutions which have a significant impact on US economic relations with these countries: the World Trade Organization (WTO), the Asia Pacific Economic Cooperation (APEC) forum, the North America Free Trade Agreement (NAFTA), and the ASEAN Free Trade Area (AFTA). A fifth grouping, the East Asian Economic Caucus

⁶ Marcus Noland, "Trade, Investment, and Economic Conflict Between the US and Asia," manuscript, Washington: Institute for International Economics.

(EAEC), has had little economic impact but has created political controversy.

Prior to the latest round of global trade negotiations, the Southeast Asian countries were not major players in global trade policy. However, in the Uruguay Round the Southeast Asians took on a more assertive role with Malaysia, Thailand, the Philippines, and Indonesia all joining the Cairns Group of pro-liberalization agricultural exporters. Likewise, the Southeast Asians have tried to use ASEAN to increase their voice within the WTO. Substantively the Uruguay Round deal should reduce bilateral trade tensions between the US and ASEAN. Under the agreement the ASEAN countries have agreed to reduce trade barriers, eliminate some trade-related investment performance requirements, and increase intellectual property rights protection, all of which have been major sources of tension in the past. Despite remaining bilateral disputes with the US, the Southeast Asians should be considered potentially important supporters of the global trade system. It is noteworthy that a dispute between Malaysia and Singapore was the first case filed under the WTO's new dispute settlement mechanism.

Both the United States and the countries in Southeast Asia have entered into regional trade arrangements, NAFTA in the case of the US, and AFTA in the case of the ASEAN countries. Although it is often overlooked in the US, NAFTA has been a concern for the Southeast Asians, who fear diversion of trade and investment to Mexico. There is little consensus in the academic literature about how large these potential losses could be, although some studies concluded that significant losses were possible.⁷ Indeed, concern about NAFTA was one of the motivations that pushed the Southeast Asians toward AFTA.

For its part, ASEAN had been touting economic cooperation since its founding in 1967, but this was largely lip service yielding no notable achievements. Economic cooperation within ASEAN took a step forward in January 1992 when the ASEAN members announced their intention to form AFTA. After a period of fitful progress, the ASEAN countries renewed their commitment in September 1994, reaching a comprehensive agreement to accelerate and expand trade liberalization within AFTA. Beginning in 1995 each member would begin a phased reduction of its tariffs on imports from other members to 0-5 percent by 2003. Members would also reduce non-tariff barriers on intra-ASEAN trade, and a dispute settlement mechanism would be established. In September 1995 they went even further, pledging to open up financial services, aviation, tourism, communications, transportation, and construction. As with their previous unilateral liberalizations, the AFTA process is largely voluntary, with observation and informal peer pressure the primary mechanisms for achieving liberalization. However in light of ASEAN's checkered history in implementing past agreements, a certain amount of skepticism about this latest round of commitments is in order.

Little formal analysis has been done on AFTA, but what research that does exist suggests that it probably would be good for the US, creating \$2.8 billion (in 1988 prices) in trade with countries outside the group.⁸ This assumes that the benefits are extended only to AFTA member

⁷ Marcus Noland, "Asia and NAFTA," in Youn-Suk Kim and Kap-Soo Oh editors, *The US-Korea Economic Partnership*, 1995, Brookfield: Avebury.

⁸ Dean A. DeRosa, "Regional Trading Arrangements Among Developing Countries: The ASEAN Example," Research Report 103, Washington: International Food Policy Research Institute.

nations. If benefits are applied on a most-favored-nation basis, trade creation increases dramatically, rising to \$9.1 billion. This encapsulates the critical choice the ASEAN countries face: as small, open economies, it has been in their interest to liberalize unilaterally. ASEAN and AFTA give them the potential to act together strategically and extract concessions out of larger partners such as the US, China, and Japan. However, this strategy has costs -- namely the necessity of creating more formal binding structures, as is becoming apparent in the attempt to establish AFTA rules of origin, and the risk of foregoing much of the gains from liberalization.

The same tension between traditional informal cooperation and more formal legally binding commitments can be seen in APEC. The ASEAN countries appear to have an ambivalent attitude toward APEC: on the one hand they see the obvious gains to securing market access in the US, Japan, and ultimately China, while at the same time they fear losing ASEAN's potential strategic leverage as it is subsumed into the broader organization. Individually they have, for the most part, been strong supporters of APEC: Indonesia played a critical role in establishing the goal of free trade and investment in the region; the Philippines, this year's Leaders Meeting host is pushing some positive proposals, and Singapore, always a strong supporter, is host to the organization's small secretariat. The lone dissenter from this high level of support has been Malaysia which has promoted the idea of an East Asian Economic Caucus.

The EAEC issue should not be overemphasized. There are a variety of reasons for why the Malaysian government has made the political decision to emphasize EAEC. In any event, Malaysia accounts for half a percent (0.5) of the output of APEC, and only 14 percent of ASEAN's output. Moreover, the political logic of EAEC is not particularly compelling -- why would smaller countries of Southeast Asia want to form a bloc that might be dominated by the largest (and least trusted) countries, namely China and Japan? This perhaps helps explain why the idea has been received rather coolly by other countries in the region. In any event, as long as EAEC remains just that -- a caucus or talking shop -- the US should not be overly anxious. There are reasons why Asian countries may wish to explore regional cooperation on a variety of issues and the exclusion of the US from these groups does not necessarily diminish US national interests. If it appeared, however, that the EAEC would develop into an organization of trade preferences above and beyond APEC, to the detriment of the US, then it would be incumbent upon the US to move to block this development.

In the end, it will probably be these smaller states' concerns about economic competition with China which will be the glue that holds ASEAN economic cooperation together.

CONCLUSIONS

Southeast Asia is a rapidly growing part of the world with deepening economic ties to the US. In the normal course of events the US will encounter trade problems with these countries. In the past these have largely been addressed bilaterally. However our bilateral leverage may be slipping as the Southeast Asians' dependence on our market declines. As these countries participate more actively in the WTO and APEC, and undertake the rigorous obligations of the bodies to liberalize trade, then the US may find it more advantageous to pursue its interests through the WTO and APEC.

STATEMENT OF JIM ADAM
BLACK & VEATCH

BEFORE THE
ASIA AND THE PACIFIC SUBCOMMITTEE ON
INTERNATIONAL ECONOMIC POLICY AND TRADE
INTERNATIONAL RELATIONS COMMITTEE
UNITED STATES HOUSE OF REPRESENTATIVES

June 19, 1996

Mr. Bereuter, Members of the Committee, in particular, Mrs. Meyers.

Black & Veatch is a major exporter of environmental and water infrastructure engineering and construction services. We are also the world's leading provider of engineering services for the power generation industry. Last year, we provided 45 percent of the detailed engineering services globally for that industry.

Nearly 70% of our 1995 sales in the power sector resulted from exports, primarily to emerging markets in Southeast Asia and elsewhere. Southeast Asia is an economic powerhouse which includes some of the fastest growing economies in the world. The reason is straight-forward: Governments there, more so than in most other regions of the globe, have taken the American experience to heart. They are crafting societies in which individual initiative and hard work can be rewarded. Their free market reforms have produced prosperity.

Every country in this region is in some stage of deregulation in the power sector, which is beginning to open up opportunities for Independent Power Producers. These countries have massive needs for foreign investment, which will continue to be attracted to them as long as they continue to open their power sectors to market forces and permit reasonable profits to be made. Continued high rates of economic growth and power demand should generate major opportunities for U.S. companies over the next decade.

However, opportunities must be translated into real projects. In practice, U.S. firms face trade barriers at home and abroad. Home grown barriers are the most frustrating, including efforts to utilize economic sanctions to promote U.S. foreign policy goals. A major issue we must deal with is that while multilateral sanctions have proven effective in some cases, the unilateral application of economic sanctions is far more likely to harm U.S. commercial interests, jeopardize high-valued export jobs, and to prove counterproductive on policy grounds as well.

A second is the maldistribution of U.S. officials from the State and Commerce Departments in U.S. embassies, a particular problem in Southeast Asia. The U.S. exports more to Malaysia now than it does to Italy, yet the U.S. Embassy in Rome has five times the commercial officials in Malaysia.

A third issue involves the worth of U.S. export promotion programs like the Trade and Development Agency and the Export-Import Bank (EXIM). There is a direct relationship between the scope of export promotion programs and the creation of high-value export jobs. Competition internationally for these jobs is intense, which is why 29 other countries aggressively implement their export credit agency, or ECA, programs.

These ECAs create market imperfections and distortions by aggressively supporting their countries' firms, financing about \$10 billion in projects annually, plus another \$80 billion in direct exports. Black & Veatch faces vigorous competitors, backed by these deep pocket ECAs supplying financing, on most of our project bids. EXIM financing sometimes makes the difference between our being able to compete and being left out. For example, in Indonesia, our client told us that to compete in the Paiton Two Project, we must bring a strong finance package with our bid. EXIM responded to our need, enabling us to close a deal on March 24, 1996, to supply \$100 million in engineering services as part of the winning consortium. In addition to the jobs maintained in Black & Veatch, Combustion Engineering and a number of subcontractors were supported by EXIM's loan.

If we cannot utilize EXIM and TDA resources to counter the effects of these foreign ECAs, the basic rules affecting the operation of U.S. companies will change. Engineering and construction companies will be forced to make a difficult choice: Enter into partnerships with foreign ECAs, developers, and trading companies, or go out of business. Equipment supply and related jobs will follow the financing abroad. Small and medium sized suppliers here will suffer grievously along with large equipment suppliers like GE and Westinghouse. Moreover, as market penetration by U.S. firms dwindles, the development of stable markets which typically follows initial export orders and projects will dwindle as well.

No doubt changes could be made to improve the operation of U.S. export finance programs, but this issue is marginal compared to the budget risks confronting EXIM and TDA in Congress. TDA, for example, must stretch \$40 million across the world, while JICA, the Japanese Technical Assistance Agency, has a \$308 million budget. TDA is a small but effective U.S. agency which helps us to

conduct studies and win contracts by supplying the pivotal funding. In Malaysia, selection of Black & Veatch for a 500 kV transmission line project hinged on a \$100,000 grant from TDA to provide training for the client's managers.

I might add that we also obtained follow-on work for two power plants once we developed the relationship with the Malaysian utility, and we have a partnering agreement. So that single grant led to a tremendous amount of business not only for us but for U.S. suppliers who also export on those projects.

Yet, some congressional critics favor continued budget reductions. The U.S. export community strongly supports export promotion programs for two major reasons:

First, critics fail to evaluate the credit side of the export promotion ledger. These programs dramatically leverage government funds (taxes). Projects carried out by Black & Veatch with TDA support, for example, have returned \$73 in exports for every TDA dollar received. Federal income taxes on the wage portion of these exports alone will average around \$7.00 per taxpayer dollar spent. EXIM generates \$20 in exports per taxpayer dollar. On balance, these programs reduce rather than swell the budget deficit.

Secondly, critics assert that export promotion is corporate welfare, which provides subsidies to U.S. companies. Mr. Chairman, I would like this Committee to know that U.S. companies are prepared to work without export promotion programs when we can be assured that our competitors in other countries will be competing on the same grounds. U.S. technology and management are equal to, or superior to, any in the world, and we would be pleased to work toward a system which would allow us to compete on those criteria. At present, however, the philosophy and practical means are lacking to make the transition effectively from the present system to one which is free of market distortions. Until that is devised, a coherent, integrated program of U.S. Government support is necessary to preserve U.S. market share, jobs, and our high technology manufacturing base, while limiting sales to foreign competitors who are strongly supported by their governments.

Let me close by noting that there are real risks for trade and investment in Southeast Asia. We need tax treaties with Thailand, Malaysia, the Philippines and Vietnam. Tariff and non-tariff barriers remain excessive. Government tax and regulatory regimes are not particularly transparent, and currency risks remain high. Some of these risks can be mitigated by the market, but others require continual prodding by the U.S. Government.

-4-

The nations of Southeast Asia appreciate the benefits of foreign trade and investment. They realize that the capital skills and technology they need can only come from the private sector, much of it from abroad. The challenge for Congress and the U.S. Government today is to ensure that market openings proceed apace while acting to further reduce market distortions. That is the best recipe for continued prosperity here and rising living standards abroad.

SUMMARY

- The US has played a significant role in Singapore's progress by providing an overall climate of regional security and stability, enabling us to concentrate on the task of economic reconstruction and social development.
- Singapore and the US share a common belief in the importance of global free trade. Singapore helped the US in breaking the impasse on inclusion of issues such as services, intellectual property and investment in the Uruguay Round negotiations by forming a coalition of developing countries to negotiate on these issues.
- Singapore is a key business partner for American companies. They set up operations in Singapore to take advantage of Singapore's cost competitive capability in manufacturing key components for industrial use back in the US, ultimately making US industry one of the most competitive in the world. 90 per cent of Singapore's exports to the US are components and parts for industry, only 10 per cent are consumed.
- Singapore is a major market for US goods. Based on US Department of Commerce's data, Singapore is the 9th largest market for US exports, generating 190,000 jobs in America last year. With our recent purchase of 77 Boeing 777-100, Singapore readily accounts for over 300,000 American jobs. Although a nation of only 3 million, Singapore has the highest per capita imports in the world. In 1995, an average Singaporean consumer spent an estimate \$442.61 on American goods.
- With the good relationships Singapore has built up with the governments and private sectors in Asia, Singapore can help ease the entry of US companies into the emerging Asian markets such as Indonesia, India, Vietnam and China. Singapore is developing industrial parks in these economies which replicate the transparent regulations and fair business environment of Singapore.
- Being a multi-cultural Asian society, Singapore can act as a gateway to the Asian region and a test-bed for US ideas. For example, Apple has a design center in Singapore to develop human interface technologies such as speech and handwriting recognition of Mandarin and other Asian languages.
- Singapore is viewed by Americans as having the many qualities they like to see : a country of industrious immigrants who value pragmatism and independence. As former President of the Asia Society, Dr. Robert Oxnam, once observed : "US-Singapore relations are considerably more significant than the relative sizes of the two countries might suggest".
- The attached paper describes the above in some detail.

US-SINGAPORE ECONOMIC RELATIONS: A STRATEGIC PARTNERSHIP

INTRODUCTION

1. Singapore has made significant economic progress since its independence in 1965. This progress was achieved against great odds as Singapore is a small island nation without much natural resources. In that, the US played a significant role.

US' ROLE IN SINGAPORE'S ECONOMIC DEVELOPMENT

2. First, it provided an overall climate of regional security and stability which enabled Asia, including Singapore and the other NIEs, to concentrate on the tasks of economic reconstruction and social development.

3. Second, the US led the efforts to liberalise global trade. US leadership has maintained the trade-liberalisation momentum through eight successive rounds of global trade negotiations under GATT. Its own import tariffs were progressively reduced from 40 % in 1947 to the projected rate of 3.5 % by 2000.

4. Third, the US participated directly in Singapore's economic development by opening up its market to Singapore imports and by investing in Singapore. Between 1965-1995, total trade between Singapore and the US grew by an average of 22 % per annum from US\$ 104 million to US\$ 41 billion (see Table 1 for US-Singapore trade volume between 1986-1995). In 1995, US' trade with Singapore was 10 % of US total trade with East Asia. Until recently, the US was Singapore's top trading partner. It is now Singapore's second largest export market (after Malaysia) and third largest source of imports (after Japan and Malaysia).

Table 1:
US-Singapore Trade Volume, 1986 - 1995

Year	Volume (US\$ billion)	Annual Percentage Change (%)
1986	9.08	---
1987	12.37	36.2
1988	16.72	35.2
1989	19.48	16.5
1990	21.68	11.3
1991	23.39	7.9
1992	24.99	6.8
1993	29.01	16.1
1994	35.28	21.6
1995	40.31	14.3

Source: Singapore Trade Development Board

5. In terms of investment, the US has been the largest foreign investor in Singapore's manufacturing sector since 1983. As at end-1995, cumulative stock of US investments in Singapore exceeded US\$ 11 billion¹. Singapore is host to 1,300 US companies, including many Fortune 500 companies such as Hewlett Packard, Seagate, Motorola, Mobil, Dupont, IBM, Exxon and Compaq. US companies brought capital and market to Singapore and also shared their technology and expertise with their Singaporean partners and employees.

6. US companies have also invested actively in Singapore's services sector. In 1995, US investment commitments in this sector reached US\$ 778 million. Major US projects included regional headquarters set up by Hewlett Packard, Compaq, Levi Strauss, MTV Broadcasting and Production, Citibank and Walt Disney Television.

VALUE OF US-SINGAPORE ECONOMIC RELATIONS

7. US-Singapore economic relations has more than parochial significance. First, the US and Singapore share an important consensus on matters of

¹ Source: US Survey of Current Business (1994-1995).

international concern. In particular, we agree on the need for a continued US security presence in Asia to ensure sustained regional political stability. When US forces withdrew from Philippines, Singapore was the first to offer to host a US logistic unit, the COMLOG Westpac. On a more recent development, Singapore welcomes the US-Japan Joint Declaration on Security.

8. Second, the US and Singapore share a common belief in the importance of global free trade. To this end, Singapore was among the early supporters of the US' call to start the Uruguay Round (UR) of GATT negotiations. We participated actively and constructively in the UR and made substantial market access commitments in both goods and services.

9. Although the negotiations lasted seven onerous years, Singapore co-operated closely with the US throughout to overcome many controversial issues along the way. For instance, Singapore persuaded several of the developing countries to accept the inclusion of new issues such as services and trade-related intellectual property rights and investments in the UR. We also helped break the impasse on the inclusion of these new issues, by forming a coalition of developing countries, including ASEAN, to negotiate with the US and other developed countries.

10. Our support of the multilateral trading system led us to join the US as the early founding members of the World Trade Organisation (WTO). We aim to continue the close working relationship with the US, and look to the US for support in achieving a substantial outcome at the inaugural WTO Ministerial Conference in Singapore in December.

11. At the regional level, Singapore and the US have also worked closely towards greater economic co-operation in the Asia-Pacific. In APEC, co-operation between the two countries and other like-minded APEC members brought about the Bogor vision of free trade in the region by 2010/2020. The process was subsequently taken forward with the Osaka Action Agenda.

12. Third, Singapore is a key business partner for American companies. As at end-1994, Singapore hosts the third largest stock of US foreign direct investments in Asia after Japan and Hong Kong (see Table 2). Average annual returns of 22 %

enjoyed by American companies on their investments in Singapore was highest among all the investor countries for the US. (This was followed by Hong Kong at 16 %, Taiwan 15%, the United Kingdom 13% and Germany 11%²). Singapore is also a gateway for US exports to Asia. US' re-exports through Singapore rose from 33 % of total US exports to Singapore in 1985 to more than 50 % in 1995.

Table 2:
US Direct Investment Abroad, 1993 & 1994

Country	US\$ million	
	1993	1994
Japan	31,184	37,027
Hong Kong	10,177	11,986
Singapore	8,867	10,972
Taiwan	3,128	3,882
South Korea	3,124	3,612
Malaysia	1,988	2,383

Source: US Survey of Current Business, 1994-95

13. The high level of US manufacturing investments in Singapore points to our key role in enhancing US companies' competitiveness. For instance, leading US disk drive makers like Western Digital, Seagate and IBM³ have located their regional operations in Singapore to leverage on our precision engineering, skilled manpower, R&D and technological capabilities. (In 1995, Singapore accounted for 45 % of the world rigid disk drive unit shipments. Output of data storage-related products from Singapore totalled US\$ 9.5 billion.)

14. Hewlett Packard has more than 80 engineers developing products such as ink-jet printers and hand-held information products in Singapore for sale world-wide. Apple has established a design centre in Singapore to develop human interface technologies, e.g. speech and hand-writing recognition in Chinese and other Asian languages with Singapore's Institute of Systems Science.

² Source: US Department of Commerce, 1994.

³ These 3 companies collectively account for 60 % of the global disk drive market.

15. Many other US companies have also set up operations in Singapore to take advantage of Singapore's cost competitive capability in manufacturing key components for assembly plants back in the US. Indeed, 90 % of Singapore exports to the US are in the form of machinery, components and parts which are used as industrial inputs. In 1995, only US\$ 2.1 billion of Singapore's total exports of US\$ 21.6 billion to the US were consumed. The remaining US\$ 19.5 billion were used as industrial inputs to enhance the competitiveness of US products.

16. Fourth, Singapore is a major market for US goods. Between 1965-1995, Singapore imports from the US grew at an average of 18 % per annum. In 1995, Singapore was the US' 9th largest export market⁴. Our total imports from the US were US\$ 18.7 billion in 1995. Based on the US Department of Commerce's estimate that 10,000 new jobs are created for every billion US dollars of exports by US companies, Singapore generated about 190,000 American jobs last year. (Recently, the Singapore International Airlines (SIA) announced its decision to buy 77 Boeing 777-100 aircraft at a total cost of US\$ 12.7 billion⁵, thus creating more new jobs in the US.) With continued economic growth, Singapore will remain a major export market for US products.

STRENGTHENING FUTURE TIES

17. Singapore and the US have built a strong foundation and understanding in their economic relations. Our interests coincide in a majority of economic issues.

18. The US Government has adopted the "Big Emerging Markets" (BEM) initiative as a key component of its trade policy. The Asian BEMs, comprising ASEAN, China and India, will constitute 40 % of the world's population, half of the GDP of all the BEMs, and up to two-thirds of the total import growth of BEMs in the next two decades⁶. These markets present abundant opportunities to US

⁴ Source: US Department of Commerce

⁵ Including the latest order, SIA has purchased 207 Boeing aircraft over the last 30 years worth an estimated US\$ 25 billion.

⁶ From the then Under-Secretary of Commerce Mr Jeffrey Garten's speech on "The Clinton Administration's Commercial Diplomacy in Asia" to the American Chambers of Commerce in Hong Kong on 7 April 95.

businesses. However, many US companies have not found it easy to do business in Asia because of differences in business environments, political systems, social and cultural norms. This is an area where Singapore can be a valuable partner for US companies seeking business opportunities in Asia.

19 First, Singapore can help ease the entry of US companies into the emerging Asian market. Singapore can help US companies establish a foot-hold in the emerging Asian market through the various Singapore-style industrial parks which it is developing in Indonesia, China, India and Vietnam. Such industrial parks replicate the pro-business environment that over 3,000 multinationals enjoy in Singapore. So far, over 20 US multinationals have already entered the regional market via this route. They include Advanced Micro Devices, Harris Corporation, Eli Lilly, RJR Nabisco, Ciba-Vision, EG&G Heimann Optoelectronics and Quantum Asia-Pacific.

19. Second, Singapore can act as a test-bed for US products. Being a multicultural society, we can help US multinationals customise products for the Asian market. An example mentioned earlier was Apple's design centre in Singapore to develop human interface technologies.

20. The cultural affinity of its Singaporean employees can also help sensitise US multinationals to the needs of Asian countries, thus adding the extra competitive edge. For example, Becton Dickinson (an American health care manufacturer) uses its Singapore plant to supply managers and train workers for a new factory being set up in China. As reiterated by Becton Dickinson's President, Mr Eugenio Naschold, "having Singapore managers who speak Chinese is our best means for crossing the culture gap"⁷.

⁷

Fortune Magazine, 4 March 96.

21. CONCLUSION

22. Former President of the Asia Society, Dr Robert Oxnam, once observed that "US-Singapore relations are considerably more significant than the relative sizes of the two countries might suggest."⁸

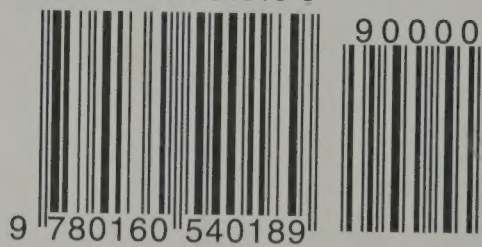
23. Over the years, the US has played a major role in enhancing the economic growth and development of Asia and Singapore. Asia's economic boom presents many opportunities for Singapore and the US to build further on the strong foundations in bilateral relations.

24. To this end, Singapore's Prime Minister Goh Chok Tong mooted the formation of a Singapore-US Business Council in October 1995. This idea was warmly welcomed and endorsed by businessmen from both sides. The inaugural meeting of the Singapore-US Business Council will be held in August 1996. The Council's objectives are to: promote trade and investment flows between Singapore and the US; promote and facilitate co-operation between the respective private sectors in third markets; and enhance the networking between the respective private sectors.

⁸ Final Report of Conference on Singapore-US into the 1990s. The Conference was organised by the Fletcher School of Law and Diplomacy, Tufts University, in Singapore from 6-8 November 1985.



ISBN 0-16-054018-6



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